40 YEARS COMPENSATING VICTIMS OF OIL POLLUTION DAMAGE
IOPC FUNDS FIPOL FIDAC

Agenda Item 5	IOPC/OCT18/**5**/**6**/**1**	
Date	17 August 2018	
Original	English	
1992 Fund Assembly	92A23	●
1992 Fund Executive Committee	92EC71	
Supplementary Fund Assembly	SA15	

2017 FINANCIAL STATEMENTS AND AUDITOR'S REPORT AND OPINION

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992 (1992 FUND)

Note by the Director

Summary:	As indicated in document IOPC/OCT18/5/6, the 1992 Fund Financial Statements and the Auditor's Report and Opinion are set out.
Action to be taken:	1992 Fund Assembly Approval of 2017 Financial Statements.

1 Introduction

1.1 In accordance with Article 29.2(f) of the 1992 Fund Convention, the Director has prepared the Financial Statements of the 1992 Fund for the financial year 2017. The Director has also prepared comments on the Financial Statements. These comments are at Annex I. Attached to that Annex is a summary of the External Auditor's recommendations from the current and prior financial years and the actions taken on those recommendations.

1.2 In keeping with best practice, the Director has included a Statement on Internal Control which provides positive confirmation of the internal control framework. The Statement is at Annex II.

1.3 The Financial Statements of the 1992 Fund are audited by BDO LLP.

1.4 Pursuant to Financial Regulation 14.10, the External Auditor has submitted to the 1992 Fund Assembly, through its Chairman, its Report on the audit of the Financial Statements of the 1992 Fund for the financial period ended 31 December 2017. The Auditor's Report is at Annex III.

1.5 Under Financial Regulation 14.16 the External Auditor shall express an opinion on the Financial Statements on which it is reporting. This Opinion is at Annex IV.

1.6 Staff Regulation 26(b) provides that the Director shall establish and operate a Provident Fund to which both the 1992 Fund and staff members shall contribute on such terms and conditions as may be approved by the 1992 Fund Assembly. Under Staff Rule VIII.5(g), the auditing of the Provident Fund shall be carried out in conjunction with the annual audit of the accounts of the 1992 Fund.

1.7 The 2017 Financial Statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) as prescribed by Financial Regulation 12.1.

1.8 The certified Financial Statements for the financial period 1 January to 31 December 2017 are at Annex V and consist of the following:

Statement I	Statement of Financial Position at 31 December 2017
Statement II	Statement of Financial Performance for the year ended 31 December 2017
Statement III	Statement of Changes in Net Assets for the year ended 31 December 2017
Statement IV	Statement of Cash Flow for the year ended 31 December 2017
Statement V	Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2017

1.9 In addition to the Financial Statements submitted, such notes as may be necessary for a better understanding of the Financial Statements, including a statement of the significant accounting policies, are attached.

2 Action to be taken

1992 Fund Assembly

The 1992 Fund Assembly is invited to consider the External Auditor's Report and Opinion and to approve the Financial Statements for the financial period 1 January to 31 December 2017.

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ANNEX I

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD 1 JANUARY TO 31 DECEMBER 2017

1 Introduction

1.1 The International Oil Pollution Compensation Funds (IOPC Funds) are intergovernmental organisations which provide compensation for oil pollution damage resulting from spills of persistent oil from tankers. The International Oil Pollution Compensation Fund 1992 (1992 Fund) which entered into force on 30 May 1996 was set up under the 1992 Fund Convention.

1.2 The maximum amount of compensation payable under the 1992 Conventions for any one incident is SDR 135 million[<1>] in respect of incidents occurring before 1 November 2003 and SDR 203 million for incidents occurring after that date. These amounts, which as at 31 December 2017 corresponded to £142 million and £214 million respectively, include the sum which may be attributed to the shipowner or their insurer (Protection and Indemnity Club (P&I Club)).

1.3 At its February/March 2006 session, the 1992 Fund Assembly took note of a voluntary agreement, the Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006, under which the shipowner/P&I Clubs would reimburse the 1992 Fund for part of the compensation payable by the Fund under the 1992 Fund Convention. The effect of STOPIA 2006 is that the maximum amount of compensation payable by owners of all ships of 29 548 gross tonnage or less is SDR 20 million. This voluntary agreement is applicable to the *Solar 1* incident which occurred in 2006, *Haekup Pacific* incident in 2013, the *Double Joy* incident in 2014 and the *Trident Star* incident in 2016.

1.4 The 1992 Fund has an Assembly composed of all Member States and an Executive Committee of 15 Member States elected by the Assembly. The Assembly is the supreme governing body of the organisation having, *inter alia*, the responsibility for financial matters. The main function of the Executive Committee is to approve settlement of claims for compensation when either the Director is not authorised to make settlements or when the Director seeks policy approval on specific aspects of a claim.

1.5 The 1992 Fund is financed by contributions paid by any person who has received in the relevant calendar year in excess of 150 000 tonnes of crude oil or heavy fuel oil (contributing oil) in ports or terminal installations in a Member State after carriage by sea. The levy of contributions is based on reports of oil receipts in respect of individual contributors, which are submitted to the Secretariat by governments of Member States.

1.6 As at 31 December 2017, 114 States were Members of the 1992 Fund (see Attachment I).

<1> The SDR (Special Drawing Right), which is the unit of account used in the Conventions referred to in paragraph 1.2, is valued on the basis of a basket of key international currencies and serves as the unit of account of the International Monetary Fund and a number of other intergovernmental organisations.

2 Secretariat

2.1 The 1992 Fund has a Secretariat, based in London, headed by a Director. The 1992 Fund Secretariat also administers the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund). As at 31 December 2017 the Secretariat had 34 established posts.

2.2 Key management personnel consist of the Director, Deputy Director/Head of the Finance and Administration Department, the Head of the External Relations and Conference Department, the Head of the Claims Department, and the Legal Counsel. Related party disclosures in line with IPSAS requirements are included in the notes to the Financial Statements.

2.3 The Director of the 1992 Fund is *ex officio* also the Director of the Supplementary Fund, and is assisted by a Management Team in the day-to-day running of the joint Secretariat.

2.4 The 1992 Fund uses external consultants to provide advice on legal and technical matters as well as on matters relating to management.

2.5 In connection with a number of major incidents, the Fund and the shipowner's third-party liability insurer have established joint local claims offices to facilitate the efficient handling of the great number of claims submitted and to assist claimants generally.

2.6 Local claims offices were in operation in 2017 with respect to the *Prestige* and *Agia Zoni II* incidents. The local offices ensured smooth communication between the 1992 Fund and the claimants, technical experts, and lawyers with respect to claims.

3 Audit Body

3.1 The governing bodies of the IOPC Funds have established a joint Audit Body for the Funds composed of seven members elected by the 1992 Fund Assembly: six named individuals nominated by 1992 Fund Member States and one external expert with experience in audit matters nominated by the Chairman of the 1992 Fund Assembly. The Chairman of the Audit Body is elected by the 1992 Fund Assembly on a proposal by the Chairman of the 1992 Fund Assembly.

3.2 In October 2017, the 1992 Fund Assembly elected a new Audit Body for a three-year term made up of the full complement of members.

3.3 The Audit Body normally meets three times a year. In 2017 it met in April, June and December.

4 Investment Advisory Body

4.1 The governing bodies of the IOPC Funds have established a joint Investment Advisory Body (IAB), consisting of three experts with specialist knowledge in investment matters elected by the 1992 Fund Assembly to advise the Director on the Fund's investments.

4.2 The IAB normally meets four times a year. In 2017 it met in March, May, September and November.

5 Financial risk management

5.1 The IOPC Funds manages risk using a risk register consisting of two categories: operational risk and institutional risk. Operational risk has been sub-divided into five areas: finance and contributions; governance and management; compensation; safety and security; communications and publications. For each of these areas, sub-risks have been identified and the processes and procedures for their management have been mapped, assessed and documented. This exercise allows the IOPC Funds to prioritise key risks and to ensure that these risks have been adequately mitigated and managed. Annual reviews are conducted of the IOPC Funds' full risk register by the management, and of the 'Key Risk Register' by the Audit Body.

5.2 The 1992 Fund has established a framework of internal control as set out in the Statement on Internal Control (Annex II).

5.3 The 1992 Fund's financial risk management policies focus on securing the Fund's assets, maintaining sufficient liquid funds for the operation of the Fund, avoiding undue currency risks and obtaining a reasonable return. Financial risk is managed using the Internal Investment and Hedging Guidelines approved by the Director, which have been developed in accordance with advice from the IAB. Established policies cover areas of financial risk such as foreign exchange, interest rate and credit risk, the use of financial instruments, and the investing of excess liquid funds.

5.4 The 1992 Fund's credit risk is spread widely and its investment policy limits the amount of credit exposure to any one counterparty and includes minimum credit quality guidelines.

6 <u>2017 Financial Statements-Statement of Financial Position (Statement I)</u>

Assets and liabilities

(a) The 1992 Fund's cash assets at the end of the 2017 financial period, amounting to some £99 million, were held in pounds sterling (56%), US dollars (5%), euros (22%) in respect of the *Prestige* incident and General Fund, Korean won (17%) in respect of the *Hebei Spirit* incident, and Russian roubles (1%) in respect of the *Volgoneft 139* incident.

(b) Outstanding contributions due to the 1992 Fund as at 31 December 2017 totalled some £300 000 (some £481 000 net of a provision of £181 000) representing 0.05% of the total amount levied of £563 million since inception.

(c) Provision in respect of contributions and accrued interest on contributions due from contributors of £205 603 *(2016 Financial Statements – £932 683)* is made up of £181 482 in contributions and £24 121 in interest on overdue contributions. A total amount of £52 885 is due from three contributors in the Russian Federation, and a total of £152 718 is due from four other contributors in liquidation/bankruptcy proceedings in the United Kingdom, France, Denmark and Morocco. At its October 2017 session, the 1992 Fund Assembly decided to authorise the Director to write off contributions due from two contributors in the Russian Federation for which provision was made in previous years. Contributions of £665 805 and interest of £147 905 were written off following the Assembly decision.

(d) Other receivables amounting to £523 767 includes taxes, e.g. VAT recoverable from the United Kingdom, French and Spanish Governments of £80 890. An amount of £206 400 is also due from the United Kingdom Government being its contribution-in-kind towards the rental of the Secretariat offices and storage space. Accrued income of £22 753 includes £16 673 and £6 080 due from the P&I Clubs in relation to the joint costs in respect of the *Hebei Spirit* and *Prestige* incidents respectively.

(e) At its first session, the 1992 Fund Assembly instructed the Director to carry out the tasks necessary for the setting up of the International Hazardous and Noxious Substances Fund (HNS Fund) as requested by the HNS International Conference on the basis that any related expenses would be treated as loans from the 1992 Fund. An amount of £353 028 (including interest of £38 097) is due from the HNS Fund when established.

(f) Provision for compensation has been made for claims received by 31 December 2017, assessed and approved but not paid by 31 December 2017, or where a final judgment has taken place, but payment has not been made, by 31 December 2017. The provision for compensation as at 31 December 2017 is £49 995 350 *(2016 Financial Statements – £64 157 256)* made up as follows:

Nesa R3 incident	OMR 34 317	£65 880
Prestige incident	€28 004 739	£24 857 748
Hebei Spirit incident	KRW 27 491 047 867	£18 982 960
Alfa I incident	€100 000	£88 762

(g) Provision for employee benefits (short-term and long-term) of £559 899 *(2016 Financial Statements – £564 180)* has been made for accrued annual leave and separation benefits.

(h) Contributors' account has a balance of £480 022 *(2016 Financial Statements – £765 279)* made up of reimbursement of contributions in accordance with the Assembly's decisions and net overpayments by contributors. Contributors have been informed by the Secretariat of their credit balances but some contributors have decided to retain the amounts with the 1992 Fund to be offset against the future levy of contributions.

(i) The Provident Fund is made up of two elements, namely Provident Fund (PF1), which is invested with the 1992 Fund assets, and Provident Fund (PF2), which is managed by an independent financial broker in the name of the 1992 Fund. Participation in PF2 is entirely voluntary and new staff members can only participate in PF2 after completing one year of service in the Secretariat. Investing in PF2 is to be made only from the cash balance available in PF1. There is no possibility of investing private funds in PF2. All fees paid by those participating in PF2 are based on the proportion of their investment in PF2.

The PF1 had a balance of £4 543 665 *(2016 – £3 688 691)* on the accounts of staff members as at 31 December 2017. This balance reflects contributions to the Provident Fund during the financial year, transfers to and from PF2, withdrawals and repayments of housing loans, withdrawals on separation, and interest earned (£166 584) on the investment of the assets of the Provident Fund (see Note 14 to the Financial Statements).

A transfer of £404 008 was made by staff members from PF2 back to PF1 in 2017. The value of the funds in PF2 was £1 012 968 (*2016 Financial Statements – £1 360 359*) on the 31 December 2017.

(j) The net assets position presented in Statement I shows a closing balance of £48 969 393, a decrease of £18 406 450 from the balance on 31 December 2016 of £67 375 843.

7 2017 Financial Statements—Statement of Financial Performance (Statement II)

7.1 Revenue and expenses

In 2017, total revenue was some £18.3 million and total expense was some £36.7 million.

(a) With regards to contributions, the 1992 Fund Assembly decided in October 2016 to levy £9.6 million to the General Fund and £6.3 million to the *Alfa I* Major Claims Fund payable in 2017. Contributions invoiced in 2017 include levies based on contributing oil reports received late amounting to £1.4 million.

(b) Contributions-in-kind (£206 400) is the reimbursement received from the United Kingdom Government of 80% of the rent of the Secretariat offices in the International Maritime Organization (IMO) building.

(c) Compensation claims during 2017 amounted to some £29.6 million. The amount related mainly to the *Prestige* incident (£24.8 million) following a final judgment made by the Spanish Courts in 2017, plus some £4.8 million in respect of the *Hebei Spirit* incident.

(d) There was a decrease in provision for compensation payments of some £20.2 million, mainly due to a decrease in the provision in relation to the *Hebei Spirit* incident as a result of payment of compensation. In October 2017, the 1992 Fund Executive Committee decided to instruct the Director to make an advance payment of KRW 40 billion to the Government of the Republic of Korea.

(e) Claims-related expenditure incurred in 2017 amounted to some £2.8 million, with payments in respect of the *Hebei Spirit* incident of £0.8 million, plus payments made from the General Fund in respect of the *Agia Zoni II* incident that occurred in Greece in September 2017.

Under the Memorandum of Understanding (MoU) with the International Group of P&I Clubs, as mentioned above, the relevant P&I Clubs' share of joint costs in 2017 amounted to £87 528. These amounts have been offset against claims-related expenditure resulting in net expenditure of £2.8 million.

(f) The total administrative expenses for 2017 in the Statement of Financial Performance is £4 474 255 *(2016 – £4 478 098)* made up of staff and other personnel costs of £2 912 578 *(2016 – £2 780 970)*, and other administrative costs of £1 561 677 *(2016 – £1 697 128)*. The expenses included in the Statement of Financial Performance are based on the requirements of the accounting standards and relate to the 1992 Fund only.

Expenses included	£
Statement of Financial Performance	**4 474 255**
<u>Less:</u>	
<u>In accordance with IPSAS:</u>	
Accommodation costs reimbursed by the United Kingdom Government	(206 400)
Depreciation and amortisation	(50 377)
Adjustment to provision for employee benefits	(43 159)
Accrued lease expenditure	(101 713)
<u>1992 Fund expense only:</u>	
External Auditor's fees – Chapter VI	(43 200)
<u>Add:</u> Fixed asset purchase – Chapter II	9 090
Joint Secretariat expenses Chapters I–VI on budget basis (paragraph 7.1(h)) below	**4 038 496**

(g) The budget for the running of the joint Secretariat is prepared on a modified cash basis. The total joint Secretariat expenses on a comparable basis to the budget amounts to £4 038 496 (see paragraph (h) below). This amount is 8.1% less than the 2017 budget appropriation of £4 396 520.

(h) Expenses for running the joint Secretariat were made under six chapters (Statement of Comparison of Budget and Actual Amounts – Statement V) as set out in the table below:

Chapter	2017 Budget appropriations £	2017 Budget out-turn £	Underspend/ (overspend) as % of original budget appropriations
I Personnel	3 052 310	2 869 418	5.1
II General services	670 460	612 485	8.6
III Meetings	110 000	128 846	(17.1)
IV Travel	100 000	111 603	(11.6)
V Miscellaneous expenditure	403 750	316 144	21.7
VI Unforeseen expenditure	60 000	-	100.0
Total	**4 396 520**	**4 038 496**	

Two transfers were subsequently made between chapters; amounts of £18 846 and £11 603 from 'Unforeseen expenditure' (Chapter VI) to 'Meetings' (Chapter III) and 'Travel' (Chapter IV) respectively (see Chapter VI below).

I Personnel

Expenditure under Personnel totalled £2 869 418 and covers salaries, separation/recruitment, staff benefits/allowances, and training. As stated above, the increase in provision for employee benefits is not included in the budget out-turn figure.

Costs under this chapter make up 71% of the total administrative expenditure.

II General services

Of the £612 485 spent within this chapter, some 30% related to office accommodation, 42% to IT (hardware, software, maintenance and connectivity) and 13% to public information (includes website and publications costs).

The 1992 Fund Secretariat relocated to the IMO headquarters building in 2016. The term of the lease entered into with the IMO runs from 1 March 2016 and will expire on 25 October 2032. The rent has been fixed at £258 000 per annum with a break on 31 October 2024. The United Kingdom Government meets 80% of the costs related to the rental space of the Secretariat offices in the IMO headquarters building.

The budget out-turn includes the cost of purchase of fixed assets amounting to £9 090, whereas the Statement of Financial Performance (Statement II) includes instead the depreciation and amortisation cost of £50 377, in line with IPSAS requirements.

Costs under this chapter make up 15% of the total administrative expenditure.

III Meetings

In 2017 the IOPC Funds governing bodies held eight days of sessions over two meetings.

Costs under this chapter make up 3% of the total administrative expenditure.

IV Travel

Where possible, costs incurred by travel to various conferences and seminars and to hold workshops on claims handling is shared with travel in relation to incidents. Budgeting for travel is difficult as invitations for conferences and seminars are not normally provided in time to be included in the preparation of the budget.

Costs under this chapter make up 3% of the total administrative expenditure.

V Miscellaneous expenditure

Expenses under this chapter include consultants' fees amounting to £55 314. Consultants' fees cover non-incident related studies and legal fees in pursuing contributors for outstanding contributions. Other costs under this chapter relate to the Audit Body and Investment Advisory Body amounting to £187 148 and £73 681 respectively.

Costs under this chapter make up 8% of the total administrative expenditure.

VI Unforeseen expenditure

A revised budget was created by transferring appropriations totalling £30 449 from this chapter, as follows:

At its October 2017 session, the Assembly authorised the Director to make the necessary transfer to 'Travel' (Chapter IV) within the 2017 budget from 'Unforeseen expenditure' (Chapter VI), as spending had exceeded the amount that can be transferred under Financial Regulation 6.3. An amount of £11 603 was transferred from Chapter VI.

At its April 2018 session, the 1992 Fund Administrative Council authorised the Director to make the necessary transfer to 'Meetings' (Chapter III) within the 2017 budget from 'Unforeseen expenditure' (Chapter VI) as spending exceeded the amount that can be transferred under Financial Regulation 6.3. An amount of £18 846 was transferred from Chapter VI.

<u>1992 Fund expense only:</u>

VII External audit fees

External audit fees paid in 2017 for the audit of the 1992 Fund's 2016 Financial Statements amounted to £43 200, in accordance with the fee agreed with the External Auditor on appointment.

7.2 <u>General Fund and Major Claims Funds' balances</u>

7.2.1 The General Fund balance on 31 December 2017 was £21 704 555, which is lower than the working capital of £22 million set by the 1992 Fund Assembly at its October 2004 session. The working capital is established to ensure that the 1992 Fund is able to meet compensation and claims-related expenses which have not been foreseen and may occur between the regular sessions of the governing bodies.

The balances on the respective Major Claims Funds, specific to incidents, are as follows:

	£
Prestige Major Claims Fund	1 500 214
Hebei Spirit Major Claims Fund	23 374 492
Volgoneft 139 Major Claims Fund	3 725 001
Alfa I Major Claims Fund	(1 334 869)

7.2.2 The contingent liabilities as at 31 December 2017 were estimated at some £69.2 million in respect of 10 incidents. Further details on the incidents are provided in Note 26 to the 2017 Financial Statements.

7.2.3 A schedule of compensation and claims-related expenditure incurred in respect of open incidents involving the 1992 Fund is provided in Attachment II to this Annex.

7.2.4 A summary of the total compensation and claims-related expenditure, excluding provision, from both the General Fund (up to SDR 4 million) and the Major Claims Fund established for the incident, is as follows:

Incident	Date of incident	Compensation £	Claims-related expenses £	**Total £**
Prestige	13.11.02	83 119 382	23 572 413	**106 691 795**
*Solar 1**	11.08.06	6 491 623	246 125	**6 737 748**
Volgoneft 139	11.11.07	4 978 755	1 240 353	**6 219 108**
Hebei Spirit	07.12.07	84 113 523	35 666 396	**119 779 919**
Incident in Argentina	26.12.07	-	242 339	**242 339**
Redfferm	30.03.09	-	69 791	**69 791**
JS Amazing	06.06.09	-	81 462	**81 462**
*Haekup Pacific**	20.04.10	-	20 126	**20 126**
MT Pavit	31.07.11	-	79 586	**79 586**
Alfa I	05.03.12	10 856 126	491 143	**11 347 269**
Nesa R3	19.06.13	3 148 409	208 469	**3 356 878**
Shoko Maru	29.05.14	-	16 502	**16 502**
*Double Joy**	05.08.14	-	4 083	**4 083**
*Trident Star**	24.08.16	-	10 133	**10 133**
Agia Zoni II	10.09.17	-	1 113 816	**1 113 816**

* Under STOPIA 2006

8 <u>Sustainability</u>

8.1 The 1992 Fund Convention provides the 1992 Fund Assembly the authority to levy contributions that may be required to balance the payments to be made by the 1992 Fund. It also places an obligation on the contributors to make payment by a due date or bear interest on any arrears.

8.2 Based on the net assets held at the end of the period and the generally high percentage of receipt of the contributions levied by the due date, the going concern basis has been adopted in preparing the 1992 Fund's Financial Statements.

9 <u>External Auditor's recommendations from previous financial years</u>

9.1 The External Auditor made no recommendations in 2017. Recommendations from previous financial years, and the Director's response thereto, are set out in Attachment III to this Annex.

9.2 Appropriate action has been/is being taken on all previous financial years' recommendations.

José Maura
Director
25 June 2018

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ATTACHMENT I

States Parties to both the 1992 Civil Liability Convention and the 1992 Fund Convention as at 31 December 2017 (114 States)

Albania	Ghana	Oman
Algeria	Greece	Palau
Angola	Grenada	Panama
Antigua and Barbuda	Guinea	Papua New Guinea
Argentina	Hungary	Philippines
Australia	Iceland	Poland
Bahamas	India	Portugal
Bahrain	Iran (Islamic Republic of)	Qatar
Barbados	Ireland	Republic of Korea
Belgium	Israel	Russian Federation
Belize	Italy	Saint Kitts and Nevis
Benin	Jamaica	Saint Lucia
Brunei Darussalam	Japan	Saint Vincent and the
Bulgaria	Kenya	Grenadines
Cabo Verde	Kiribati	Samoa
Cambodia	Latvia	Senegal
Cameroon	Liberia	Serbia
Canada	Lithuania	Seychelles
China[2]	Luxembourg	Sierra Leone
Colombia	Madagascar	Singapore
Comoros	Malaysia	Slovakia
Congo	Maldives	Slovenia
Cook Islands	Malta	South Africa
Côte d'Ivoire	Marshall Islands	Spain
Croatia	Mauritania	Sri Lanka
Cyprus	Mauritius	Sweden
Denmark	Mexico	Switzerland
Djibouti	Monaco	Syrian Arab Republic
Dominica	Montenegro	Tonga
Dominican Republic	Morocco	Trinidad and Tobago
Ecuador	Mozambique	Tunisia
Estonia	Namibia	Turkey
Fiji	The Netherlands (Kingdom of	Tuvalu
Finland	the Netherlands)	United Arab Emirates
France	New Zealand	United Kingdom
Gabon	Nicaragua	United Republic of Tanzania
Georgia	Nigeria	Uruguay
Germany	Niue	Vanuatu
	Norway	Venezuela (Bolivarian Republic
		of)

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[2] The 1992 Fund Convention applies to the Hong Kong Special Administrative Region only.

ATTACHMENT II

Claims and claims-related expenditure
as at 31 December 2017
(Figures in pounds sterling)

Incident	Year	Compensation £	Legal fees £	Technical fees £	Various fees £	Other £	Total £
Prestige [3]							
13 November 2002	2017	-	375 037	175 527	34 033	3 912	588 509
Reimbursement from P&I Club	2017	-	-	(23 310)	-	-	(23 310)
	2016	45 229	234 346	145 060	34 392	27 326	486 353
Reimbursement from P&I Club	2016	-	-	(19 264)	-	-	(19 264)
	2015	238	66 242	42 733	28 238	6 732	144 183
Reimbursement from P&I Club	2015	-	-	(5 887)	-	-	(5 887)
	2014	38 323	204 580	53 571	25 666	10 114	332 254
Reimbursement from P&I Club	2014	-	-	(6 895)	-	-	(6 895)
	2013	53 811	904 052	340 051	131 867	11 682	1 441 463
Reimbursement from P&I Club	2013	-	-	(50 124)	-	-	(50 124)
	2012	-	882 326	454 536	51 095	6 766	1 394 723
Reimbursement from P&I Club	2012	-	-	(55 821)	-	-	(55 821)
	2011	107 197	876 299	696 430	18 108	2 692	1 700 726
Reimbursement from P&I Club	2011	-	-	(92 062)	-	-	(92 062)
	2010	62 446	1 123 739	785 355	23 309	3 195	1 998 044
Reimbursement from P&I Club	2010	-	-	(119 399)	-	-	(119 399)
	2009	253 735	1 016 806	1 389 357	33 428	3 340	2 696 666
Reimbursement from P&I Club	2009	-	-	(218 703)	-	-	(218 703)
	2008	251 641	699 131	1 241 573	34 636	3 731	2 230 712
Reimbursement from P&I Club	2008	-	-	(171 669)	-	-	(171 669)
	2007	1 109 424	661 652	1 208 692	64 583	8 488	3 052 839
Reimbursement from P&I Club	2007	-	-	(20 153)	-	-	(20 153)
	2006	40 537 569	664 774	1 663 608	135 402	23 225	43 024 578
Reimbursement from P&I Club	2006	-	-	(1 000 000)	-	-	(1000 000)
	2005	621 316	356 892	2 052 910	208 059	31 557	3 270 734
	2004	123 033	285 311	1 865 281	175 002	288 810	2 737 437
	2003	39 915 420	252 526	2 760 248	280 599	120 473	43 329 266
	2002	-	-	35 969	-	10 626	46 595
	Total to date	83 119 382	8 603 713	13 127 614	1 278 417	562 669	106 691 795
Solar 1							
(Under STOPIA 2006)[4]							
11 August 2006	2017	-	18 255	-	377	24	18 656
	2016	-	6 588	-	-	33	6 621
	2015	-	9 503	-	-	12	9 515
	2014	-	10 156	-	-	-	10 156
	2013	-	6 843	-	-	12	6 855
	2012	-	18 272	656	-	6	18 934
	2011	-	10 270	-	-	6	10 276
	2010	17 798	8 692	635	-	897	28 022
Reimbursement from P&I Club	2010	-	-	-	-	(573)	(573)
	2009	390 508	33 077	3 800	-	7 294	434 679
Reimbursement from P&I Club	2009	-	-	-	-	(1 663)	(1 663)
	2008	281 908	-	-	-	10 990	292 898
Reimbursement from P&I Club	2008	-	(43 052)	-	(77 879)	(10 925)	(131 856)
	2007	3 835 532	46 658	-	80 677	67 167	4 030 034
	2006	1 965 877	-	-	248	39 069	2 005 194
	Total to date	6 491 623	125 262	5 091	3 423	112 349	6 737 748

<3> Joint costs reimbursement by P&I Club.

<4> Compensation payments reimbursed by the P&I Club under STOPIA 2006.

Incident	Year	Compensation £	Legal fees £	Technical fees £	Various fees £	Other £	Total £
Volgoneft 139							
11 November 2007	2017	3 141 445	34 508	-	301	313	3 176 567
	2016	310 060	37 626	-	-	81	347 767
	2015	-	42 883	-	425	64	43 372
	2014	-	30 636	1 125	-	5 383	37 144
	2013	1 527 250	96 891	9 795	-	27 724	1 661 660
	2012	-	84 354	23 658	-	10 561	118 573
	2011	-	119 313	65 823	645	6 367	192 148
	2010	-	100 881	88 350	-	9 934	199 165
	2009	-	97 831	127 852	-	14 468	240 151
	2008	-	60 940	120 781	5 849	14 991	202 561
	Total to date	4 978 755	705 863	437 384	7 220	89 886	6 219 108
Hebei Spirit [5]							
7 December 2007	2017	48 147 120	721 150	145 908	5 553	23 589	49 043 320
Reimbursement from P&I Club	2017	-	-	(64 218)	-	-	(64 218)
	2016	24 064 868	1 431 530	767 394	-	79 157	26 342 949
Reimbursement from P&I Club	2016	-	-	(337 653)	-	-	(337 653)
	2015	11 901 535	1 585 233	2 221 723	-	390 507	16 098 998
Reimbursement from P&I Club	2015	-	-	(977 507)	-	-	(977 507)
	2014	-	1 499 185	1 652 666	-	53 866	3 205 717
Reimbursement from P&I Club	2014	-	-	(715 743)	-	(343)	(716 086)
	2013	-	933 971	1 194 111	-	45 725	2 173 807
Reimbursement from P&I Club	2013	-	-	(463 652)	-	-	(463 652)
	2012	-	306 560	3 132 934	-	62 972	3 502 466
Reimbursement from P&I Club	2012	-	-	-	-	(343)	(343)
	2011	-	512 816	4 211 595	-	155 240	4 879 651
Reimbursement from P&I Club	2011	-	-	-	-	(5 359)	(5 359)
	2010	-	287 299	5 907 901	-	150 818	6 346 018
Reimbursement from P&I Club	2010	-	-	(1 523)	-	(12 793)	(14 316)
	2009	-	2 332 643	5 072 399	31 312	110 021	7 546 375
Reimbursement from P&I Club	2009	-	-	(9 320)	-	(21 255)	(30 575)
	2008	-	248 382	2 903 118	156	96 682	3 248 338
	2007	-	-	-	-	1 989	1 989
	Total to date	84 113 523	9 858 769	24 640 133	37 021	1 130 473	119 779 919
Incident in Argentina							
26 December 2007	2016	-	1 861	-	-	875	2 736
	2015	-	732	-	-	44	776
	2014	-	11 349	-	-	42	11 391
	2013	-	3 316	4 428	-	66	7 810
	2012	-	37 829	-	-	6	37 835
	2011	-	-	6 746	-	12 392	19 138
	2010	-	64 378	9 088	-	8 918	82 384
	2009	-	52 272	18 043	318	9 210	79 843
	2008	-	-	-	300	126	426
	Total to date	-	171 737	38 305	618	31 679	242 339
Redfferm							
30 March 2009	2017	-	1 675	-	-	-	1 675
	2016	-	2 425	-	-	209	2 634
	2015	-	-	-	-	-	-
	2014	-	1 625	-	-	35	1 660
	2013	-	24 850	6 978	-	292	32 120
	2012	-	7 125	11 827	-	12 750	31 702
	Total to date	-	37 700	18 805	-	13 286	69 791

[5] $5 million (£3 137 550) received as a result of legal settlement between the 1992 Fund and the P&I Club with Samsung Heavy Industries and Samsung C&T Corporation. The amount is accounted under 'Other revenue' in 2012.

Incident	Year	Compensation £	Legal fees £	Technical fees £	Various fees £	Other £	Total £
JS Amazing							
6 June 2009	2017	-	1 925	-	-	-	1 925
	2016	-	425	-	-	628	1 053
	2015	-	-	-	-	-	-
	2014	-	3 075	-	-	330	3 405
	2013	-	12 750	16 976	-	1 802	31 528
	2012	-	11 962	11 827	-	12 762	36 551
	2011	-	7 000	-	-	-	7 000
	Total to date	-	37 137	28 803	-	15 522	81 462
Haekup Pacific							
20 April 2010	2017	-	4 029	-	-	39	4 068
	2016	-	8 526	-	424	129	9 079
	2015	-	-	-	-	-	-
	2014	-	-	-	-	-	-
	2013	-	6 975	-	-	4	6 979
	Total to date	-	19 530	-	424	172	20 126
MT Pavit							
31 July 2011	2017	-	1 004	-	-	5 562	6 566
	2016	-	11 912	33 634	-	2 563	48 109
	2015	-	12 368	6 290	-	89	18 747
	2014	-	1 745	4 025	300	94	6 164
	Total to date	-	27 029	43 949	300	8 308	79 586
Alfa I							
5 March 2012	2017	-	174 540	4 197	251	10 483	189 471
	2016	10 856 126	112 062	12 375	1 161	7 918	10 989 642
	2015	-	23 212	20 333	-	2 749	46 294
	2014	-	66 998	19 155	405	2 598	89 156
	2013	-	7 976	725	-	68	8 769
	2012	-	14 103	6 477	522	2 835	23 937
	Total to date	10 856 126	398 891	63 262	2 339	26 651	11 347 269
Nesa R3							
19 June 2013	2017	174 192	37 146	7 500	2 333	522	221 693
	2016	1 344 648	24 726	20 737	-	2 302	1 392 413
	2015	868 298	44 334	25 351	4 514	5 312	947 809
	2014	761 271	3 030	16 722	-	4 345	785 368
	2013	-	-	6 920	-	2 675	9 595
	Total to date	3 148 409	109 236	77 230	6 847	15 156	3 356 878
Shoko Maru							
29 May 2014	2016	-	-	-	-	-	-
	2015	-	-	-	-	-	-
	2014	-	-	4 424	-	12 078	16 502
	Total to date	-	-	4 424	-	12 078	16 502
Double Joy							
5 August 2014	2017	-	-	-	3 833	250	4 083
	Total to date	-	-	-	3 833	250	4 083
Trident Star							
24 August 2016	2017	-	6 664	-	2 423	22	9 109
	2016	-	800	-	-	224	1 024
	Total to date	-	7 464	-	2 423	246	10 133
Agia Zoni II							
10 September 2017	2017	-	85 433	936 781	69 696	21 906	1 113 816
	Total to date	-	85 433	936 781	69 696	21 906	1 113 816

* * *

Notes:
Compensation paid in 2017 totalled £51 462 757 (Note 20, Annex V).
In respect of the *Dawn Kanchipuram* incident, claims-related expenditure of £6 365 was incurred.

ATTACHMENT III

1992 FUND

RECOMMENDATIONS MADE BY THE EXTERNAL AUDITOR IN THE REPORT ON THE FINANCIAL STATEMENTS

SUMMARY OF RECOMMENDATIONS AND DIRECTOR'S RESPONSE

FINANCIAL STATEMENTS 2016

Recommendations to the Director (made by BDO)	**Response from IOPC Funds' Director (October 2017 Assembly)**	**Status**
Recommendation 1: We recommend that, as part of the year-end accounts preparation process, management consider for each incident whether or not it is possible to reliably estimate the total future liability to the Fund, regardless of the status of individual claims. A working paper should be produced in respect of each material incident to support management's view.	At the time of adopting IPSAS in 2010 a policy on provision for compensation claims was discussed and agreed with the then External Auditor (NAO) and Audit Body. Provision is recognised at the time when an individual claim is approved rather than the total liability of the incident. The balance between the approved claims and the estimated total liability of the incident is disclosed under contingent liability. However, to be fully compliant with IPSAS, the Director in future will provide a working paper for each material incident to support whether or not it is possible to estimate the total future liability to the Fund reliably.	**Implemented**

Recommendations to the Director (made by BDO)	**Response from IOPC Funds' Director (October 2017 Assembly)**	**Status**
<u>Recommendation 2:</u> Management are currently undergoing a review of their accounting systems and processes, with a view to either upgrading or replacing their current accounting software. As part of this review, we recommend that management consider the need to specify functionality to include accounting for provision movements and foreign exchange gains and losses within the accounting system in real time. This will significantly reduce the level of manual effort required in accounting for these complex areas.	The current accounting software was upgraded in 2006 when the Funds' financial reporting was under the United Nations Systems Accounting Standards (UNSAS). With the subsequent adoption of the International Public Sector Accounting Standards (IPSAS) and development of the Online Reporting System for contributing oil receipts and the Claims Handling System, the management is simultaneously reviewing its accounting software requirements. An off-the-shelf package is viewed as most appropriate since the IPSAS follows the similar principles to the International Financial Reporting Standards (IFRS) used by commercial institutions. The Director welcomes the recommendation and will include it in the requirements capture for the new accounting software and will discuss with the External Auditor on the most appropriate package and timelines.	**Ongoing** Any new accounting package will include the functionalities identified by the External Auditor. The Director proposes to engage a consultant to assist with mapping out the system requirements, and to assist with identification and migration to a new system. In relation to timelines the aim would be to run a parallel system for the financial year 2019 and to use the new accounting system solely from 2020.

Recommendations to the Director (made by BDO)	Response from IOPC Funds' Director (October 2017 Assembly)	Status
<u>Recommendation 3:</u> We recommend that management reviews the structure and wording of the declaration form to assist preparation by setting out definitions of relevant connected parties to declare (e.g. extent of family/relationships) and nature of anticipated relevant trading entities (e.g. sector/industry-specific experts). We recommend that the Chairman of the 1992 Fund Assembly countersigns the declarations of the Director.	All staff members who are in a position where they might influence the IOPC Funds' policy or make decisions on behalf of the IOPC Funds complete a Register of Interests Form by 31 January of each year. The Director reviews and signs off on all the declarations, and the register is maintained by the HR Manager. If for any reason the staff member's circumstances change during the course of the year they are required to declare this by completing a new Register of Interests Form. The Register of Interests Form has been designed for the purpose of assisting those registering to identify the interests that could conflict with the staff member's role in the Funds and specific categories have been indicated under which those on the register would be required to enter their interests. The staff member discloses any relevant interests under any of the categories listed. The Director shall consider the recommendation and review the structure and wording of the Register of Interests Form to assist its completion. The Director is happy to have the Chairman of the 1992 Fund Assembly countersign the declarations of the Director.	**Implemented**

FINANCIAL STATEMENTS 2015

Recommendations to the Director (made by predecessor External Auditor)	Response from IOPC Funds' Director (October 2016 Assembly)	Status
Recommendation 2: The Secretariat should review the Disaster Recovery Plan both prior to and following the relocation and test the plan at least on an annual basis.	The review of the Disaster Recovery Plan for the new offices is ongoing. The Audit Body, at its June 2016 meeting was provided information on the proposed cloud-based solution. The Secretariat prior to the move will have in place the preferred Disaster Recovery Plan and this will be tested. An annual test shall be undertaken and documented.	**Implemented**
Recommendation 5: The Assembly should consider a review of the effectiveness of the IAB arrangements, and the future restriction of IAB membership to a specific term limit. These arrangements would bring the IAB in line with the requirements placed on the Audit Body.	The Director welcomes this recommendation and will implement any decisions made by the Assembly in respect of this recommendation.	**Implemented** At their April 2018 sessions the governing bodies, noted the Director's considerations on the effectiveness and term of the members of the joint Investment Advisory Body. The governing bodies noted that the Director did not see any merit in introducing a performance measure for the IAB as any such measure would be difficult to implement due to the Funds' cash management being driven by ensuring the security of the assets, liquidity requirements and only then a return on the investment. The governing bodies also noted that the Director was in favour of the IAB providing a self-evaluation, every three years, as part of its Report to the governing bodies, with the first such evaluation to be presented at the October 2020 meeting. The governing bodies further noted that the Director regarded the members of the IAB as technical experts in the field of finance who provide advice in the way that other experts advise the Funds in areas such as the assessment of claims for compensation, and therefore did not see the need for a prescriptive

Recommendations to the Director (made by predecessor External Auditor)	**Response from IOPC Funds' Director (October 2016 Assembly)**	**Status**
		rotation of the IAB members. The Director instead proposed to review the composition of the IAB every three years when the term of the IAB members expires, when a member steps down or when the Director believes that the IAB would benefit from a change in composition.
<u>Recommendation 7:</u> The Secretariat should formally evaluate the case for the provision of a small, risk-focused programme of internal audit activity which would be subject to an independent and objective review by the Audit Body.	The Director maintains that an internal audit function would be an unnecessary burden and expense on an organisation the size of the Secretariat. He does however see merit in engaging the services of an external consultant to review areas in the operation of the Secretariat to assure him further that the internal control processes in place are adequate. The Director shall discuss with the Audit Body and the External Auditor how best to discharge this recommendation.	**Implementation ongoing** As part of the process of further enhancing the system of internal control, the Director commissioned an internal audit needs assessment which was discussed with the Audit Body at its meeting in April 2018. The outline plan and the areas to be reviewed over a three-year period should provide added assurances to the Director on the effectiveness of the internal controls in place, particularly in specialist areas such as cybersecurity.

* * *

ANNEX II

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT ON INTERNAL CONTROL

Scope of Director's responsibility

Under Article 28.2 of the 1992 Fund Convention, the Director shall be the legal representative of the International Oil Pollution Compensation Fund 1992 (1992 Fund). Each Contracting State shall, pursuant to Article 2.2 of the 1992 Fund Convention, recognise the Director as the legal representative of the 1992 Fund.

Under Article 29.1 of the 1992 Fund Convention, the Director shall be the chief administrative officer of the 1992 Fund. As chief administrative officer, the Director has responsibility for maintaining a sound system of internal control that supports the achievement of the 1992 Fund's policies, aims and objectives, while also safeguarding the 1992 Fund's assets.

As a result of these provisions, the Director has the authority, *vis-à-vis* third parties, to commit the 1992 Fund without restrictions, unless the third party concerned has been informed of any limitation of this authority decided by the Assembly or Executive Committee.

The Director is, however, bound by any restriction of his authority decided by the Assembly or Executive Committee. He may delegate his authority to other officers within the limits laid down by the Assembly.

The 1992 Fund and the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund) are together referred to as the IOPC Funds. The IOPC Funds have a joint Secretariat headed by one Director. The 1992 Fund administers the joint Secretariat and staff members are therefore employed by the 1992 Fund.

Pursuant to the authority given and within the limits laid down by the IOPC Funds' governing bodies, the Director has delegated his authority to other officers by Administrative Instructions.

In 2017, the Director was assisted by a Management Team comprising of the Deputy Director/Head of the Finance and Administration Department, Head of the External Relations and Conference Department, Head of the Claims Department and the Legal Counsel, for the day-to-day running of the Secretariat.

Statement on the system of internal control

The Director has the responsibility for maintaining a sound system of internal control that supports the work of the 1992 Fund. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks and to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Management Team normally meets on a weekly basis to exchange information and to brief the Director and the rest of the team on matters that may require particular attention. The minutes of these, and any other meetings held by the Management Team to discuss substantive matters of policy and work, are held in the Director's office. These meetings provide the necessary forum where Management Team members entrusted with specific areas of responsibility can discuss issues including internal control and risks arising in the organisation. The Director obtains assurance from these meetings that there are sufficient internal controls in place and that the risks are mitigated and managed across the organisation.

The joint Audit Body established by the IOPC Funds' governing bodies meets formally three times a year. The Audit Body has the mandate to review the adequacy and effectiveness of the organisation regarding key issues of management and financial systems, financial reporting, internal controls, operational procedures and risk management, to review the organisation's Financial Statements and reports, and to consider all relevant reports by the External Auditor including reports on the organisation's Financial Statements. This additional oversight provides further assurance to the Director, as well as the governing bodies, that appropriate internal controls are in place. The Audit Body reports to the 1992 Fund Assembly on an annual basis.

In relation to the investment and cash management the joint Investment Advisory Body (IAB) established by the IOPC Funds' governing bodies advises the Director on relevant procedures for investment and cash management controls and these are monitored by the IAB which provides the Director with further assurances of the internal controls that are in place in this area. The IAB also reviews the IOPC Funds' investments and foreign exchange requirements to ensure that reasonable investment returns are achieved without compromising the IOPC Funds' assets. The IAB also monitors, on an ongoing basis, the credit ratings of financial institutions and reviews the credit ratings of institutions which meet the IOPC Funds' investment criteria. The IAB meets quarterly with the Director and Secretariat, annually with the External Auditor and attends Audit Body meetings as requested in order to exchange information. The IAB reports to the 1992 Fund Assembly on an annual basis.

Risk management

The Director continued a review of the IOPC Funds' risk register to identify key risks across the Secretariat. These risks have been placed in two categories: operational risk and institutional risk. Operational risk has been sub-divided into five areas: finance and contributions; governance and management; compensation; safety and security; and communications and publications.

In 2017 the management reviewed and assessed the sub-risks under these risk areas, following which the process and procedures for management of these risks were documented. This exercise allowed the IOPC Funds to prioritise the key risks and to ensure that these risks have been adequately mitigated.

The Key Risk Register is shared with the Audit Body at least annually, following the results of the annual risk management review and updates to the Register. The Audit Body and the Director jointly identified two areas of risk for more in-depth analysis, which the Audit Body reviewed throughout the year. The Audit Body has made valuable contributions to the organisation's risk management which provides further assurance to the Director that the processes are effective. The Audit Body makes specific reference to these matters in its annual report to the governing bodies.

The risk and control framework

The system of internal control is based on an ongoing process designed to ensure conformity with the 1992 Fund Convention, the Financial Regulations, the Internal Regulations and decisions of the 1992 Fund Assembly and Executive Committee.

The Assembly adopts the Financial Regulations and Internal Regulations necessary for the proper functioning of the 1992 Fund.

Staff Regulations are adopted by the 1992 Fund Assembly. Staff Rules are issued by the Director and any amendments made to the Staff Rules are reported annually to the 1992 Fund Assembly. Administrative Instructions are issued by the Director as and when required.

Review of effectiveness

The review of the effectiveness of the system of internal control is carried out through the work of the Audit Body and that of the External Auditor. Any recommendations made by the External Auditor, in its management letter and other reports, are considered and a plan to address any identified weakness and to ensure continuous improvement of the current system is agreed.

As part of the process of further enhancing the system of control, the Director commissioned an internal audit needs assessment which was discussed with the Audit Body at its meeting in April 2018. The outline plan and the areas to be reviewed over a three-year period should provide added assurances to the Director on the effectiveness of the internal controls in place, particularly in specialist areas such as cybersecurity.

I am pleased to conclude that there existed an effective system of internal control for the financial year 2017.

José Maura
Director
25 June 2018

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Independent auditor's report to the Assembly of the International Oil Pollution Compensation Fund 1992

Opinion on the financial statements

We have audited the financial statements of the International Oil Pollution Compensation Fund 1992 (the Fund) for the year ended 31 December 2017 which comprise the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Net Assets, the Statement of Cash Flows and the Statement of Comparison of Budget and Actual Accounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law including the Financial Regulations of the International Oil Pollution Compensation Fund 1992 (the Financial Regulations) and International Public Sector Accounting Standards (IPSASs).

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of the International Oil Pollution Compensation Fund 1992 as at 31 December 2017 and of the results of its operations and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Fund's Financial Regulations and International Public Sector Accounting Standards; and
- accounting principles have been applied in the preparation of the financial statements on a basis consistent with that of the preceding period.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – basis of accounting and use

In forming our opinion on the accounts, which is not modified, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Fund in complying with their financial reporting obligations. As a result, the financial statements may not be suitable for another purpose.

Other information

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

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

We have nothing to report in this regard.

Opinion on Regularity

In our opinion, in all material respects the revenue and expense have been applied to the purposes intended by the Fund's Assembly and the financial transactions conform to the Financial Regulations.

Responsibilities of the Director

The Director is responsible for the preparation of the financial statements and for such internal control as the Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

In preparing the financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Fund and enable the Director to ensure that the financial statements comply with the Fund regulations and IPSASs. The Director is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Director is reposnsible for ensuring that transactions of the Fund are in accordance with the Financial Regulations and legislative authority.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

External Auditor's Report

In accordance with Article 14 of the Financial Regulations, we have also issued an External Auditor's Report on our audit of the International Oil Pollution Compensation Fund 1992 financial statements.

Use of our report

This report is made solely to the Assembly of the International Oil Pollution Compensation Fund 1992 (the Assembly), as a body, in accordance with the Financial Regulations of the Fund and our engagement letter. Our audit work has been undertaken so that we might state to the Assembly those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Assembly as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

David Eagles
For and on behalf of BDO LLP
Ipswich, UK

27 June 2018

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INTERNATIONAL OIL POLLUTION COMPENSATION 1992 FUND

REPORT OF THE EXTERNAL AUDITOR

Audit for the year ended 31 December 2017

29 June 2018

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We are pleased to present our second annual report to the Fund Assembly, which details the key findings arising from our audit of the International Oil Pollution Compensation 1992 Fund ('the Fund') for the year ended 31 December 2017.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (ISAs) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance, in this case the Joint Audit Body. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and regularity. As the purpose of the audit is for us to express an opinion on the financial statements and regularity, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Fund Assembly. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank the Director and the staff of the Secretariat for their co-operation and assistance during the audit and throughout the year.

AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

CONTENTS

EXECUTIVE SUMMARY

FINANCIAL SUMMARY	
Income and expenditure Page 4	The Fund has reported contribution income for the year of £17.3 million (of which £1.4 million related to previous years' levies), and other income of £1.1 million. Compensation expenditure for the year was £29.6million, of which the majority (£24.8 million) related to the Prestige incident.
Financial position Page 4	The Fund maintains a healthy liquidity position, with access to liquid cash and investment assets more than twice the value of its current liabilities, and also more than sufficient cash to cover its contingent liabilities should these crystallise.
AUDIT APPROACH AND CONCLUSIONS	
Scope of the audit Page 5	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. We also give an opinion of the regularity of the Fund's income and expenditure; that is whether it has been applied to the purposes intended by the Fund Assembly, and whether it is in accordance with the Financial Regulations.
Materiality Page 5	The materiality for the financial statements as a whole was set at £1.95 million. In addition, we applied a lower specific materiality of £780,000 to the Fund's income and expenditure (with the exception of non-cash movements in provisions).
Overall conclusion Page 5	We have given an unmodified opinion on the financial statements, and an unmodified regularity opinion. This means that we are satisfied that: • the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS); and • the revenue and expense have been applied to the purposes intended by the Fund's Assembly and the financial transactions conform to the Financial Regulations.
KEY AUDIT RISKS AND OTHER MATTERS ARISING	
Key audit risks Page 6	In planning our audit, we identified significant risks in relation to management override of controls, and provisions for claim liabilities. Our audit identified no evidence of fraud in relation to management override of controls. Last year we made a recommendation relating to provisions for claim. The Secretariat has made changes that we consider improvements in relation to this and therefore we have no further recommendations to make at this time.
OTHER GOVERNANCE ISSUES	
	We have agreed to defer selecting topic areas and undertaking wider governance work pending procurement of Internal Audit resource and agreement of their area(s) of focus so that we do not confuse or duplicate this initiative.

FINANCIAL SUMMARY

CONTRIBUTIONS

At its session in October 2016, the Fund Assembly decided to levy contributions to the General Fund of £9.7 million and contributions to the Alfa 1 Fund of £6.4 million payable by 1 March 2017. Of this amount, a total of £15.9 million had been invoiced to contributors by 31 December 2017 based on oil reports received. The remaining £0.2 million (estimated) has not yet been invoiced pending the receipt of late oil reports from the relevant contributors, and as such is not included within the 2017 financial statements in line with the Fund's stated accounting policy. In addition, a further £1.4 million in contributions was invoiced and recognised during 2017 in relation to previous years' levies based on oil reports received during the year, bringing the total contribution income for 2017 to £17.3 million.

At 31 December 2017, invoiced contributions and associated interest on overdue contributions totalling £0.5 million remained outstanding, against which a provision of £206,000 has been raised in respect of receivables where recovery is considered doubtful. Full details of this provision are included at note 5 to the financial statements.

OTHER INCOME

In addition to income from contributors, the Fund has recognised a total of £1.1 million in other income, which includes interest on investments of £0.8 million, and contributions-in-kind from the UK Government of £206,000 relating to its office accommodation.

Interest on investments has shown a decrease of 26% from the prior year amount of £1.1 million. This is due to the Fund achieving lower returns on its investments, alongside a fall in the total level of investments held as a result of significant payments being made in respect of the Hebei Spirit and Volgoneft 139 incidents.

COMPENSATION EXPENDITURE AND PROVISIONS

Compensation expenditure recognised in the year was £29.7 million, the vast majority of which relates to the Prestige incident. Compensation expenditure was also recognised in respect of the Hebei Spirit, Nesa R3 and Volgoneft 139 incidents. The total compensation expenditure of £29.7 million (note 20) consisted of £51.5 million of payments made in year, less £1.2 million in currency exchange differences, and a further £20.6 million reduction in the compensation provision during the year.

Provisions for compensation in respect of claims approved by the date of signing of the financial statements, but not paid as at 31 December 2017, stood at £44.0 million (note 10). Of this, £24.9 million relates to the Prestige incident, £19.0 million relates to the Hebei Spirit incident, and the remaining amount relates to the Nesa R3 and Alfa I incidents.

OTHER EXPENDITURE

Claims related expenses were £2.8 million, which is an increase of 6.9% from the prior year amount of £2.7 million. Personnel costs increased by 4.7% from £2.8 million to £2.9 million, whilst other administrative costs decreased by 33% from £2.3 million to £1.6 million. The main reason for the decrease in administrative costs was that in the prior year, the Fund incurred one-off administrative costs of £630,000 relating to the office relocation – if these costs are ignored then administrative costs would in fact have still shown a slight decrease. Overall, the Fund has reported actual outturn expenditure across all budget Chapters which is £358,000 lower than its 2017 budget.

FINANCIAL POSITION AND LIQUIDITY

Cash and cash equivalent holdings have reduced from £137 million at 31 December 2016, to £99.4 million at 31 December 2017. This is largely due to a significant level of compensation payments made in year in respect of the Hebei Spirit and Volgoneft 139 incidents. This has been countered in part by an increase in the Sterling value of investments held in foreign currencies, due to a weakening of the pound during the year. The Fund recognised a notional translation gain on its assets of £1.9 million (note 24) at 31 December 2017.

The Fund maintains a healthy liquidity position. Liquidity ratio (the ratio of cash and current accounts receivable to current liabilities) has increased slightly from 2.08 at 31 December 2016 to 2.16 as at 31 December 2017, largely due to a reduction in provisions for compensation. However, the Fund maintains access to liquid cash and investment assets more than twice the value of its current liabilities, and holds more than sufficient cash to cover its contingent liabilities of £69.2 million should these crystallise.

AUDIT APPROACH AND CONCLUSIONS

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

We also give an opinion of the regularity of the Fund's income and expenditure; that is whether it has been applied to the purposes intended by the Fund Assembly, and whether it is in accordance with the Financial Regulations.

Our audit was scoped by obtaining an understanding of the Fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. This allowed us to focus our audit effort on the areas of greatest risk, as set out in the following section.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £1.95 million. This was determined with reference to a benchmark of the Fund's net assets (of which it represents 4 per cent). In addition, we applied a lower specific materiality of £780,000 to the Fund's income and expenditure (with the exception of non-cash movements in provisions).

We have reported to management and the Joint Audit Body all misstatements identified during the course of the audit, except those which we consider to be clearly trivial. For the purposes of making this assessment we applied a triviality level of £39,000.

OVERALL CONCLUSIONS

We have given an unmodified opinion on the financial statements, and an unmodified regularity opinion. This means that we are satisfied that:

- the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS); and
- the revenue and expense have been applied to the purposes intended by the Fund's Assembly and the financial transactions conform to the Financial Regulations.

In addition, we are aware of no unadjusted misstatements within the approved financial statements besides those which we consider to be clearly trivial.

This report includes a summary of our key audit findings. In addition, we reported more detailed findings to the Joint Audit Body at their meeting on 22 June 2018.

KEY AUDIT RISKS AND OTHER MATTERS ARISING

KEY AUDIT RISKS

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team. We have also set out the approach we took to address these risks, and our findings in each area.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	Under ISA (UK) 240, "The Auditor's responsibility to consider fraud in an audit of financial statements", there is a presumed significant risk of management override of the system of internal controls. We are required to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	Our response to this risk included: • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Reviewing accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	No issues identified Our audit work in relation to journals has not identified any issues in respect of inappropriate journal entries in the general ledger or adjustments made in the preparation of the financial statements. We have not identified bias in accounting estimates. No unusual transactions outside of the normal course of business were identified.

KEY AUDIT RISKS AND OTHER MATTERS ARISING

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Provisions for claim liabilities	Key issues relating to claims provisions include determining the point at which a claim should be recognised and the validity and completeness of that claim. This is both an accounting treatment issue and one where IOPC Funds need to place heavy reliance on external parties. The IOPC Funds rely heavily upon the use of management experts in a variety of fields for the assessment of compensation claims prior to payment. The use of external experts introduces an inherent risk that the individuals or organisations engaged will not be sufficiently independent, objective or competent to carry out their role effectively.	We have reviewed and updated our understanding of the systems and processes in place for the appointment and monitoring of external experts. We have carried out substantive testing on a sample of experts and their work to provide assurance that the relevant processes have been followed. We have carried out focussed substantive testing on a sample of claims in progress to determine whether or not the liability should be recognised and to assess the relevant value (validity and completeness). We have reviewed the Secretariat's assessment of overall liability positions for larger incidents approaching the Fund limits. We have reviewed the treatment of provisions and contingencies for the Agia Zoni II incident.	No issues identified We have reviewed the Funds' controls over the reliance upon external management experts for the assessment of claims. We note in particular that external experts are not authorised to approve or reject claims on behalf of the Fund, they can only act as advisors to in-house staff. Decisions on the validity of individual claims are taken by Claims Managers, the Head of Claims, or the Director as appropriate. This serves to mitigate the risk to the Funds arising from the use of external experts. Our testing of a sample of claims, including the work of management experts, identified no issues. We have reviewed the Secretariat's assessment of overall liability position for incidents approaching the Fund limits and the treatment of the Agia Zoni II incident. Last year we made a recommendation relating to provisions for claims. The Secretariat has made changes that we consider improvements in relation to this.

KEY AUDIT RISKS AND OTHER MATTERS ARISING

OTHER MATTERS ARISING

We comment below on other issues identified in the course of our audit, which have led to recommendations being made.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Revenue recognition	Under ISA (UK) 240 there is a presumption that income recognition presents a fraud risk. For the IOPC Funds, the risks can be identified as affecting the completeness, accuracy and existence of income. Our understanding of the nature of the Funds' revenue streams has enabled us to confirm that the presumption that this is a significant audit risk can be rebutted. We therefore do not consider the risk in relation to revenue recognition to be significant, and have therefore carried out standard audit testing in this area.	We have reviewed the Funds' calculation of levy per tonne of contributing oil, to check whether these are in line with the total levy agreed by the Fund Assembly. We have tested a sample of contribution income amounts to check whether these were correctly calculated, billed and either received by the Fund or recorded as receivable as at the year-end. We have also tested a sample of interest income transactions to check whether these have been correctly received and recorded.	No issues identified We identified no issues with the Funds' calculation of levy per tonne of contributing oil. The calculation is based upon oil reports received at the time, with estimates made in respect of oil reports not yet submitted by member states. Our testing of a sample of individual contributions recognised in year identified no issues. Our testing of interest income identified no issues.
4	Individually material payments	During the year, the 1992 Fund has made two particularly notable payments in excess of our materiality levels. These were a payment to the Skuld Club (22 billion Korean Won) and a payment to the Korean Government (40 billion Korean Won) in respect of the Hebei Spirit incident.	We confirmed and reviewed the transactions, including the impacts on provisions and contingencies and the reflection of foreign exchange movements in the primary statements and notes to the accounts. We have assessed narrative disclosures made in respect of the incidents in the notes to the accounts and the Director's commentary.	No issues were identified in respect of the two individually material payments.

INTERNAL CONTROL ENVIRONMENT

INTERNAL CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Funds' financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We are not aware of any significant deficiencies in the Funds' internal controls in relation to the year ended 31 December 2017.

APPENDICES

APPENDIX I: PROGRESS AGAINST PRIOR YEAR RECOMMENDATIONS

We set out below the progress the Funds have made in implementing recommendations we made in the prior year. We have not made any recommendations in relation to the current year.

RECOMMENDATION (MADE BY BDO)	DIRECTOR'S UPDATE	EXTERNAL AUDIT VIEW
Accounting for provision movements (including foreign currency transactions) The Secretariat are currently undergoing a review of their accounting systems and processes, with a view to either upgrading or replacing their current accounting software. As part of this review, we recommend that management consider the need to specify functionality to include accounting for provision movements and foreign exchange gains and losses within the accounting system in real time. This will significantly reduce the level of manual effort required in accounting for these complex areas.	The current accounting software was upgraded in 2006 when the Funds' financial reporting was under the United Nations Systems Accounting Standards (UNSAS). With the subsequent adoption of the International Public Sector Accounting Standards (IPSAS) and development of the Online Reporting System for contributing oil receipts and the Claims Handling System, the management is simultaneously reviewing its accounting software requirements. An off the shelf package is viewed as most appropriate since the IPSAS follows the similar principles to the International Financial Reporting Standards (IFRS) used by commercial institutions. Any new accounting package will include the functionalities identified by the External Auditor. The Director proposes to engage a consultant to assist with mapping out the system requirements, and to assist with identification and migration to a new system. In relation to timelines the aim would be to run a parallel system for the financial year 2019 and to use solely the new accounting system from 2020.	Ongoing We will continue to review the progress of the system implementation as part of audit of the 2018 accounts.

APPENDIX I: PROGRESS AGAINST PRIOR YEAR RECOMMENDATIONS

RECOMMENDATION (MADE BY BDO)	DIRECTOR'S UPDATE	EXTERNAL AUDIT VIEW
Accounting policy for compensation provisions We recommend that, as part of the year-end accounts preparation process, the Secretariat consider for each incident whether or not it is possible to reliably estimate the total future liability to the Fund, regardless of the status of individual claims. A working paper should be produced in respect of each material incident to support Secretariat's view.	Implemented At the time of adopting IPSAS in 2010 a policy on provision for compensation claims was discussed and agreed with the then External Auditor (NAO) and Audit Body. Provision is recognised at the time when an individual claim is approved rather than the total liability of the incident. The balance between the approved claims and the estimated total liability of the incident is disclosed under contingent liability. However, to be fully compliant with IPSAS, the Director in future will provide a working paper for each material incident to support whether or not it is possible to reliably estimate the total future liability to the Fund.	Closed This year the Secretariat made a provision for two incidents where the total amount of established claims exceeded the maximum amount available for compensation under the 1992 Conventions. Detailed working papers were produced for each incident to support the Secretariat's view. IPSAS 19 requires that financial statements include a movement on provisions note, to explain the movement between opening and closing provisions balances. The Secretariat included such a note within the financial statements for the first time in 2016. The note has been included again in the 2017 accounts in a slightly modified form, which we consider clearer.

APPENDIX I: PROGRESS AGAINST PRIOR YEAR RECOMMENDATIONS

RECOMMENDATION (MADE BY BDO)	DIRECTORS' UPDATE	EXTERNAL AUDIT VIEW
Declarations of interest process We recommend that the Secretariat reviews the structure and wording of the declaration form to assist preparation by setting out definitions of relevant connected parties to declare (e.g. extent of family/relationships) and nature of anticipated relevant trading entities (e.g. sector/industry-specific experts). We recommend that the Chairman of the 1992 Fund Assembly counter-signs the declarations of the Director.	All staff members who are in a position where they might influence the IOPC Funds' policy or make decisions on behalf of the IOPC Funds complete a Register of Interests Form by 31 January of each year. The Director reviews and signs off on all the declarations and the register is maintained by the HR Manager. If for any reason the staff member's circumstances change during the course of the year they are required to declare this by completing a new Register of Interests Form. The Register of Interest Form has been designed for the purpose of assisting those registering to identify the interests that could conflict with the staff member's role in the Funds and specific categories have been indicated under which those on the register would be required to enter their interests. The staff member discloses any relevant interests under any of the categories listed. The Director shall consider the recommendation and review the structure and wording of the Register of Interests Form to assist its completion. The Director is happy to have the Chairman of the 1992 Fund Assembly counter sign the declarations of the Director.	Closed Declaration forms are now sufficiently detailed and appropriately signed.

APPENDIX I: PROGRESS AGAINST PRIOR YEAR RECOMMENDATIONS

We set out below the progress the Funds have made in implementing recommendations made by the predecessor auditors.

RECOMMENDATION (MADE BY PREDECESSOR AUDITOR)	DIRECTORS' RESPONSE	EXTERNAL AUDIT VIEW
Recommendation 2 The Secretariat should review the Disaster Recovery Plan both prior to and following the relocation and to test the plan at least on an annual basis.	Closed The review of the Disaster Recovery (DR) plan for the new offices is ongoing. The Audit Body, at its June 2016 meeting was provided information on the proposed 'cloud' based solution. The Secretariat prior to the move will have in place the preferred DR plan and this will be tested. An annual test shall be undertaken and documented.	Implemented
Recommendation 5 The Assembly should consider a review of the effectiveness of the IAB arrangements, and the future restriction of IAB membership to a specific term limit. These arrangements would bring the IAB into line with the requirements placed on the Audit Body.	At its April 2018 sessions the governing bodies noted the Director's considerations on the effectiveness and term of the members of the joint Investment Advisory Body. The governing bodies noted that the Director did not see any merit in introducing a performance measure for the IAB as any such measure would be difficult to implement due to the Funds' cash management being driven by ensuring the security of the assets, liquidity requirements and only then a return on the investment. The governing bodies also noted that the Director was in favour of the IAB providing a self-evaluation, every three years, as part of its Report to the governing bodies, with the first such evaluation to be presented at the October 2020 meeting.	Implemented
Recommendation 7 The Secretariat should formally evaluate the case for the provision of a small, risk focussed programme of internal audit activity which would be subject to an independent and objective review by the Audit Body.	Ongoing As part of the process of further enhancing the system of internal control, the Director commissioned an internal audit needs assessment which was discussed with the Audit Body at its meeting in April 2018. The outline plan and the areas to be reviewed over a three-year period should provide added assurances to the Director on the effectiveness of the internal controls in place, particularly in specialist areas such as cyber security.	Ongoing See Director's comments. We will continue to monitor the system of internal control as part of our audit processes.

FOR MORE INFORMATION:

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ANNEX V

FINANCIAL STATEMENTS

OF THE INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

CONTENTS **Page**

CERTIFICATION OF THE FINANCIAL STATEMENTS

We certify that to the best of our knowledge and information, all transactions during the period have been properly entered in the accounting records and that these transactions together with the appended Financial Statements numbered I to V and notes, details of which form part of this document, fairly present the financial position of International Oil Pollution Compensation Fund 1992 as at 31 December 2017.

José Maura
Director

Ranjit S P Pillai
Deputy Director/Head of Finance and Administration Department

25 June 2018

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT I

Statement of Financial Position

At 31 December 2017

		2017	*2016*
ASSETS	**Note**	**£**	***£***
Current assets			
Cash and cash equivalents	2	99 424 123	*137 364 300*
Contributions receivable	3, 5	299 612	*243 716*
Other receivables	4, 5	523 767	*489 100*
Staff Provident Fund (externally managed)	14	1 012 968	*1 360 359*
Total current assets		**101 260 470**	***139 457 475***
Non-current assets			
Due from HNS Fund	6	353 028	*341 551*
Property, plant and equipment	7	65 950	*99 971*
Intangible assets	8	3 332	*10 598*
Total non-current assets		**422 310**	***452 120***
TOTAL ASSETS		**101 682 780**	***139 909 595***

LIABILITIES			
Current liabilities			
Payables and accruals	9	1 220 530	*813 715*
Provision for compensation	10	43 995 350	*64 157 256*
Provision for employee benefits (short term)	11	187 202	*211 982*
Prepaid contributions	12	900 953	*1 184 272*
Contributors' account	13	480 022	*765 279*
Total current liabilities		**46 784 057**	***67 132 504***
Non-current liabilities			
Staff Provident Fund	14	5 556 633	*5 049 050*
Provision for employee benefits (long term)	11	372 697	*352 198*
Total non-current liabilities		**5 929 330**	***5 401 248***
TOTAL LIABILITIES		**52 713 387**	***72 533 752***

NET ASSETS		**48 969 393**	***67 375 843***

FUNDS' BALANCES		2017	*2016*
General Fund		21 704 555	*17 446 504*
Prestige Major Claims Fund		1 500 214	*26 063 584*
Hebei Spirit Major Claims Fund		23 374 492	*27 796 868*
Volgoneft 139 Major Claims Fund		3 725 001	*3 411 470*
Alfa I Major Claims Fund		(1 334 869)	*(7 342 583)*
GENERAL FUND & MAJOR CLAIMS FUNDS (MCFs) BALANCES	15	**48 969 393**	***67 375 843***

Notes are on pages 9–41

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992
STATEMENT II
Statement of Financial Performance
For the year ended 31 December 2017

		2017	*2016*
REVENUE	**Note**	**£**	***£***
Contributions	17	17 282 921	*5 703 542*
Contributions-in-kind	18	206 400	*324 152*
Interest on investments		795 051	*1 071 825*
Other revenue	19	58 793	*75 372*
Total revenue		**18 343 165**	***7 174 891***
EXPENSES			
Compensation claims	20	29 673 076	*22 047 118*
Claims-related expenses	21	2 835 538	*2 652 532*
Personnel costs		2 912 578	*2 780 970*
Other administrative costs	22	1 561 677	*2 327 570*
Movement in provision for relocation		-	*(17 097)*
Currency exchange differences	24	(319 884)	*(2 619 012)*
Amounts added to provision for contributions and interest, less amounts received	5	86 630	*(20 163)*
Total expenses		**36 749 615**	***27 151 918***
(DEFICIT)/SURPLUS FOR THE YEAR		**(18 406 450)**	***(19 977 027)***

Notes are on pages 9–41

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT III

Statement of Changes in Net Assets

For the year ended 31 December 2017

		Accumulated surpluses / Fund balances					
	Note	£					
		General Fund	*Prestige* MCF	*Hebei Spirit* MCF	*Volgoneft 139* MCF	*Alfa I* MCF	Total
Balance at 31 December 2015		**18 344 806**	**23 839 173**	**47 547 178**	**2 733 633**	**(5 111 920)**	**87 352 870**
Surplus/(deficit) for the year ended 31 December 2016		(898 302)	2 224 411	(19 750 310)	677 837	(2 230 663)	(19 977 027)
Total net assets at 31 December 2016	25	**17 446 504**	**26 063 584**	**27 796 868**	**3 411 470**	**(7 342 583)**	**67 375 843**
Surplus/(deficit) for the year ended 31 December 2017	25	4 258 051	(24 563 370)	(4 422 376)	313 531	6 007 714	(18 406 450)
TOTAL NET ASSETS at 31 December 2017	25	**21 704 555**	**1 500 214**	**23 374 492**	**3 725 001**	**(1 334 869)**	**48 969 393**

Notes are on pages 9–41

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT IV

Statement of Cash Flow

For the year ended 31 December 2017

		2017	*2016 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES	**Note**	**£**	**£**
Deficit for the period		(18 406 449)	*(19 977 027)*
Interest on investment[<1>]		(795 051)	*(1 071 825)*
Unrealised foreign exchange (gains)/losses		(1 195 190)	*(5 263 165)*
Operating deficit		(20 396 690)	*(26 312 017)*
(Increase)/decrease in receivables	3, 4, 5, 6, 14	245 267	*1 434 428*
Increase/(decrease) in payables & accruals	9, 13	120 053	*(1 384 801)*
Increase/(decrease) in provisions	10, 11	(20 591 228)	*(10 591 757)*
Increase/(decrease) in Provident Fund (less interest)	14	340 999	*210 198*
Increase in depreciation and amortization	7, 8	50 377	*47 143*
Increase/(decrease) in prepaid contributions	12	(283 319)	*651 923*
Net cash flow from operating activities		(40 514 541)	*(35 944 883)*
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned[<2>]		963 139	*1 111 177*
Increase in property, plant and equipment	7	(9 090)	*(51 814)*
Increase in intangible assets		-	-
Net cash flow from investing activities		954 049	*1 059 363*
Net (decrease)/increase in cash and cash equivalents		**(39 560 492)**	***(34 885 520)***
Cash and cash equivalents at beginning of the year		**137 364 300**	***160 670 942***
Exchange (losses)/gains on cash and cash equivalents		**1 620 315**	***11 578 878***
Cash and cash equivalents at end of the year	2	**99 424 123**	***137 364 300***

The Statement of Cash Flow has been restated for 2016 to show the movement on cash balances relating to exchange gains/losses, in accordance with IPSAS 2.

Notes are on pages 9–41

[<1>] Interest earned from investing the assets of the General Fund and the Major Claims Funds.

[<2>] Interest earned from investing the assets of the General Fund, the Major Claims Funds, Staff Provident Fund and credit balances held by contributors.

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT V

GENERAL FUND—JOINT SECRETARIAT EXPENDITURE

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For the year ended 31 December 2017

	CLASS OF EXPENDITURE	NOTE	BUDGET APPROPRIATIONS		REVISED BUDGET		BUDGET OUT-TURN		BALANCE OF APPROPRIATIONS	
			2017	*2016*	2017	*2016*	2017	*2016*	2017	*2016*
	SECRETARIAT		£	*£*	£	*£*	£	*£*	£	*£*
I	PERSONNEL									
a	Salaries		2 172 425	*2 110 495*	2 172 425	*2 110 495*	1 998 058	*1 984 427*	174 367	*126 068*
b	Separation and recruitment		80 000	*80 000*	80 000	*80 000*	46 913	*16 219*	33 087	*63 781*
c	Staff benefits, allowances and training		779 885	*731 665*	779 885	*731 665*	810 447	*694 833*	(30 562)	*36 832*
d	Conscious rewarding scheme		20 000	*20 000*	20 000	*20 000*	14 000	*6 500*	6 000	*13 500*
			3 052 310	***2 942 160***	**3 052 310**	**2 942 160**	**2 869 418**	***2 701 979***	**182 892**	***240 181***
II	GENERAL SERVICES									
a	Office accommodation		188 600	*337 800*	188 600	*337 800*	184 597	*259 661*	4 003	*78 139*
b	IT (hardware, software, maintenance and connectivity)		277 560	*222 600*	277 560	*222 600*	260 055	*194 887*	17 505	*27 713*
c	Furniture and other office equipment		10 800	*10 800*	10 800	*10 800*	16 918	*4 377*	(6 118)	*6 423*
d	Office stationery and supplies		10 000	*12 500*	10 000	*12 500*	8 608	*14 070*	1 392	(1 570)
e	Communications (courier, telephone, postage)		35 000	*35 000*	35 000	*35 000*	20 523	*25 016*	14 477	*9 984*
f	Other supplies and services		18 500	*28 500*	18 500	*28 500*	21 141	*29 753*	(2 641)	(1 253)
g	Representation (hospitality)		20 000	*20 000*	20 000	*20 000*	18 825	*19 876*	1 175	*124*
h	Public information		110 000	*110 000*	110 000	*110 000*	81 818	*97 741*	28 182	*12 259*
			670 460	***777 200***	**670 460**	***777 200***	**612 485**	***645 381***	**57 975**	***131 819***
III	MEETINGS		**110 000**	***110 000***	***128 846***	***110 000***	**128 846**	***109 426***	**-**	**574**
IV	TRAVEL									
	Conferences, seminars and missions		**100 000**	***100 000***	***111 603***	***100 000***	**111 603**	***95 753***	**-**	***4 247***
V	MISCELLANEOUS EXPENDITURE									
a	Consultants' fees		150 000	*150 000*	150 000	*150 000*	55 314	*122 534*	94 686	*27 466*
b	Audit Body		180 000	*195 000*	180 000	*191 619*	187 148	*176 796*	(7 148)	*14 824*
c	Investment Advisory Body		73 750	*73 000*	73 750	*73 000*	73 682	*72 871*	68	*129*
			403 750	***418 000***	**403 750**	**414 619**	**316 144**	***372 201***	**87 606**	***42 419***
VI	UNFORESEEN EXPENDITURE		**60 000**	***60 000***	***29 551***	***60 881***	**-**	***60 881***	**29 551**	**-**
TOTAL I–VI (excluding External Audit fees)			**4 396 520**	***4 407 360***	**4 396 520**	**4 404 860**	**4 038 496**	***3 985 621***	**358 024**	***421 739***
VII	EXTERNAL AUDIT FEES (1992 Fund only)		**43 200**	***47 500***	**43 200**	***50 000***	**43 200**	***50 000***	**-**	***(2 500)***
TOTAL EXPENDITURE I–VII		23	**4 439 720**	***4 454 860***	**4 439 720**	**4 454 860**	**4 081 696**	***4 035 621***	**358 024**	***419 239***

Notes are on pages 9–41

NOTES TO FINANCIAL STATEMENTS

1 Accounting policies

These Financial Statements have been prepared in accordance with Financial Regulation 12.3 of the International Oil Pollution Compensation Fund 1992 (1992 Fund) and in compliance with International Public Sector Accounting Standards (IPSAS).

No new IPSAS have been issued in 2017 and no modifications to existing IPSAS have been made that would affect the preparation of the 2017 Financial Statements. There have been no changes in the operation of the Funds which might necessitate a review of applicable accounting standards.

The principal accounting policies followed in arriving at the financial information given in the respective statements are set out below ((a)–(o)).

(a) Basis of preparation

The Financial Statements of the 1992 Fund have been prepared on the accruals basis of accounting in accordance with IPSAS using the historical cost convention.

In accordance with the 1992 Fund's Financial Regulations:

(a) The financial year is the calendar year.
(b) The functional and reporting currency of the 1992 Fund is pounds sterling.

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the Funds' accounting policies, management has made the following judgements:

1. The Cash Flow Statement is prepared using the indirect method.
2. Expenditure for goods and services are net of taxes.

The management has made estimations for the following which have the most significant effect on the amounts recognised in the Financial Statements:

1. Compensation provision.
2. Employee benefit provision.

(b) Fund accounting and segment reporting

The Financial Statements are prepared on the entity basis, showing at the end of the period the consolidated position of all funds controlled by the 1992 Fund. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective.

The 1992 Fund classifies its fund activities into segments on the basis of a General Fund and Major Claims Funds (MCFs), as laid down in Financial Regulation 7. Fund balances represent the accumulated residual of revenue and expenses.

The General Fund covers the 1992 Fund's expenses for the administration of the organisation and compensation payments and claims-related expenditure up to a maximum amount of the pound sterling equivalent of SDR 4 million per incident (Financial Regulation 7.1(c)(i)) converted at the rate applicable on the date of the incident. Working capital is maintained within the General Fund.

Separate Major Claims Funds (MCFs) are established for incidents where the total amount payable by the 1992 Fund exceeds SDR 4 million (Financial Regulation 7.2(d)).

Inter-fund loans

Interest on any loan made between the General Fund and MCFs is calculated at a preferential rate of 0.25% above the lowest London clearing bank base rate.

(c) <u>Revenue</u>

Contributions

Income from contributions is treated as revenue from non-exchange transactions and is based on levies approved by the Assembly as due in the financial period. Such income from contributions is recognised only after the contributions are invoiced on the basis of figures on contributing oil receipts reported by Member States.

In cases of contributions relating to previous levies based on late or amended oil reports submitted, the amount is recognised as income on the date of the invoice.

Interest on investments

Interest income on deposits is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable on a straight-line basis over the period of the investment.

The interest earned on investments of assets in currencies other than pound sterling is translated into pounds sterling using the United Nations Operational Rates of Exchange.

Interest on overdue contributions

Income from interest on contributions comprises of interest accrued on all contributions overdue at the end of the reporting period. No interest is charged on overdue interest.

Interest on loans to the HNS Fund

Interest on any loan made to the HNS Fund is calculated at a preferential rate of 0.25% above the lowest London clearing bank base rate.

(d) <u>Expenses</u>

Foreign currency transactions

In accordance with Financial Regulations 10.4(a), the 1992 Fund's assets shall be held in pounds sterling, or, if the Director considers it appropriate, in other currencies, to meet claims and claims-related expenses.

Payments for compensation claims, claims-related expenses and administration expenses made in foreign currencies are converted into pounds sterling at the rate of exchange obtained from the bank on the date of the transaction.

Foreign currency is bought for pounds sterling and invested as part of the hedging strategy and used for making payments for compensation claims. Such payments are converted at the rate on the date of the transaction as published in the London Financial Times (rates are derived from WM/Reuters spot rates and Morningstar).

Joint Secretariat's administrative expenses

The cost of running the joint Secretariat is borne by the 1992 Fund except for the External Auditor's fees for the 1992 Fund and the Supplementary Fund, which are paid for by the respective Funds. The 1992 Fund receives a flat management fee decided by the governing bodies towards the joint Secretariat's administrative cost for the reporting period in respect of time spent on work done for the Supplementary Fund.

Leases

Expenditure incurred under an operating lease, where the substantial risks and rewards of ownership are retained by the lessor, is charged on a straight-line basis over the life of the lease.

(e) <u>STOPIA 2006 reimbursements</u>

For incidents that fall under the Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006, reimbursements due from the shipowner's insurer (Protection and Indemnity insurance (P&I Club)) of the compensation paid by the 1992 Fund is presented as revenue and corresponding expense under the compensation claims expense.

(f) <u>Currency exchange differences</u>

For the translation of all monetary items held at the end of the reporting period in currencies other than pounds sterling, the rate applied is the rate of exchange for the pound sterling against various currencies on the last banking day of the financial year as published in the London Financial Times (rates are derived from WM/Reuters spot rates and Morningstar).

(g) <u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash on hand, cash at banks and term deposits.

(h) <u>Financial instruments</u>

Financial instruments held in pounds sterling to maturity and where the interest is also received in pounds sterling have been treated at the year-end as normal term deposits. As such they are stated at the value of the investment made (historical cost) and interest is accrued as normal.

Amounts either paid to or received from financial institutions in respect of hedging instruments are treated as 'Finance Cost of hedging instrument' or 'Income from hedging instrument', respectively.

(i) <u>Inventories</u>

The costs incurred in bringing the publications to a distributable state include translation costs and printing costs. Publications are distributed free of charge. Costs of publications are expensed in the year they are incurred.

No value in inventory is carried forward since the cost of stock at year-end is not material in value and all publications are available on the organisation's website.

(j) <u>Property, plant, and equipment</u>

Purchased assets which exceed an agreed value threshold, currently £500, are capitalised at cost in accordance with Financial Regulation 11.4. The cost of all assets acquired not exceeding that threshold is immediately charged as an expense. An asset is capitalised at cost and depreciated to its estimated residual value over its useful economic life using the straight-line method. The cost of an asset includes the purchase price, shipping, and set-up charges. Depreciation is charged on an annual basis, with a full month's charge in the month of purchase and no charge in the month of disposal.

Class of asset	Useful life
Computer equipment	3–5 years
Office fixtures and fittings	5 years
Telecommunications equipment	5 years

(k) Intangible assets

Purchased computer software is capitalised at cost and amortised using the straight-line method over its useful life of up to five years. An intangible asset is recognised when it is identifiable, provides future economic benefits or service potential which can be reliably measured and access to which is wholly under the Fund's control. Internal operational and research costs are expensed. Costs associated with the maintenance of computer software programs are recognised as expenses when incurred.

(l) Provisions and contingent liabilities

Provisions are made for future liabilities and charges where the 1992 Fund has a present legal or constructive obligation as a result of past events and it is probable that the 1992 Fund will be required to settle the obligation.

Compensation provision

Provision is made for all claims approved by the relevant P&I Club and the 1992 Fund, but not paid, at the amount approved by the 1992 Fund which reflects management's best estimate at that time, or where a final judgment has taken place. Where approved claims have been pro-rated because there is uncertainty as to whether funds will be sufficient to allow further payments, no provision is made for such claims over and above the level of pro-rating, but the maximum of such amount is disclosed separately in the Financial Statements as a contingent liability.

Provision for employee benefits

The following employee benefits are provided for:

- Short-term employee benefits which fall due wholly within 12 months after the end of the accounting period in which employees render the related service; and
- long-term employee benefits not expected to be settled within 12 months.

Benefits in particular are:

- Provision for annual leave accrued – Provision classified as short-term provision is made annually on the basis of unused annual leave with changes in the provision from the start of the year being charged as an expense or released in the current financial period.

- Provision for separation costs – Under the Staff Regulations and Rules, some staff members are entitled to certain benefits upon separation from service consisting of a repatriation grant lump sum, travel of the staff member and eligible dependants and shipment of their personal effects. Separation costs are provided for at the management's best estimate.

Contingent liabilities

Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the Financial Statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of the 1992 Fund.

Estimates of contingent liabilities include all known or likely compensation claims against the 1992 Fund. All these claims may not necessarily mature or be approved. In the case of fees (claims-related costs), these are calculated for the coming year only, due to the difficulties of predicting the length and cost of legal proceedings or of negotiations for reaching out-of-court settlements. Those liabilities which mature will, under the 1992 Fund Convention, be met from contributions levied by the Assembly.

(m) Contributors' account

Net overpayments by contributors and reimbursement of contributions in accordance with the Assembly's decision are held in the contributors' account. In accordance with Internal Regulation 3.9 any credit balance on a contributors' account bears interest. The interest is added to the credit balance every year when levies are due or reimbursements are made, normally on 1 March.

(n) Staff Provident Fund

Staff Provident Fund in accordance with Staff Rule VIII.5 represents the balance on the accounts of staff members made up of contributions to the Provident Fund by staff members and the 1992 Fund, withdrawals and repayments of housing loans and interest earned on the investment of the assets of the Provident Fund.

(o) Budgetary information

The Assembly approves the budget which includes budgeted amounts for Secretariat administration costs and fixed assets. Budgets may be subsequently amended by the governing bodies by authorising transfers within chapters of the budget, in excess of the limits of delegated authority provided under the Financial Regulations, or approving supplementary budgets.

Statement V (Comparison of Budget and Actual Amounts) compares the final budget to actual amounts calculated on the same basis (modified cash basis) as the corresponding budgetary amounts. As the bases used to prepare the budget and Financial Statements differ, reconciliation between the amounts presented in Statement V and Statement II (Statement of Financial Performance) is provided in a note.

Assets and Liabilities

2 Cash and cash equivalents

Cash and cash equivalents included in the Cash Flow Statement and the Statement of Financial Position comprise the following amounts:

	2017 £	*2016* *£*
Cash on hand and balances with banks	40 946 283	76 814 594
Term deposits	58 477 840	60 549 706
Total	**99 424 123**	***137 364 300***

Cash is invested in term deposits of up to one year but can be made available at short notice without significant effect on the interest on the deposit. No long-term investments are made in bonds or shares.

Cash and term deposits held in pounds sterling totalled £55 305 021 on 31 December 2017, of which £50 281 026 was held for the 1992 Fund. In addition, the Provident Fund held £4 543 665 and the Contributors' account held £480 022.

Other currencies held (£44 119 102) were as follows:

Currency	Incident	Amount in currency	Translated as at 31 December 2017
Russian roubles	*Volgoneft 139*	RUB 49 606 609	£636 962
Korean won	*Hebei Spirit*	KRW 23 863 885 917	£16 478 353
US dollars	*Hebei Spirit*	$5 926	£4 381
US dollars	*General Fund*	$7 133 659	£5 273 255
Euros	*Prestige*	€21 976 682	£19 507 085
Euros	*General Fund*	€2 500 000	£2 219 066
Total			**£44 119 102**

3 Contributions receivable

The situation with regard to outstanding contributions is set out below.

State	Previous levies and 2016 contributions due in 2017					2017 Total contributions receivable £	*2016 Total contributions receivable £*
	General Fund £	*Prestige* MCF £	*Hebei Spirit* MCF £	*Volgoneft 139* MCF £	*Alfa I* MCF £		
Angola	21 260	-	-	-	8 132	29 392	*11 918*
Cote d'Ivoire	20 683	-	-	-	-	20 683	-
Croatia	-	-		-	1 792	1 792	*7 157*
Denmark	1 694	-	-	-	2 430	4 124	*1 694*
Djibouti	1 847	-	-	-	-	1 847	-
France	10 986	-	-	-	-	10 986	*11 761*
Germany	-	-	-	-	789	789	-
Ghana	9 636	-	52 110	4 880	5 306	71 932	*66 626*
Kenya	20 544	21 687	71 379	4 077	3 734	121 421	*117 686*
Malaysia	28 721	-	-	-	19 557	48 278	*3 638*
Mauritania	2 133	-	-	-	-	2 133	*620*
Morocco	28 445	-	-	-	21 383	49 828	*28 445*
Panama	-	-	-	-	1 294	1 294	-
Russian Federation	14 676	-	-	-	31 720	46 396	*691 445*
Tanzania	-	-	-	-	-	-	25 107
Tunisia	-	-	-	-	52	52	-
United Kingdom	39 739	-	-	-	30 408	70 147	*39 739*
Sub-total	**200 364**	**21 687**	**123 489**	**8 957**	**126 597**	**481 094**	***1 005 836***
Provision	**(95 541)**	**-**	**-**	**-**	**(85 941)**	**(181 482)**	***(762 120)***
Total	**104 823**	**21 687**	**123 489**	**8 957**	**40 656**	**299 612**	***243 716***

Contributions receivable is net of the provision for contributions due from some contributors, as set out in Note 5.

Contributions of £18 334 for the *Alfa I* Major Claims Fund, due in 2017 from a French contributor in liquidation, were written off in 2017. The estimated cost of submitting a claim to the liquidator in respect of these contributions exceeded the estimated distribution to the 1992 Fund from the liquidation process, therefore the decision was taken not to invoice the liquidator and to write off the contributions.

4 Other receivables

	2017 £	*2016* *£*
Tax recoverable	80 891	*143 444*
Accrued interest on investments	70 659	*70 257*
Accrued interest on overdue contributions	32 672	*28 404*
Prepayments	87 968	*53 641*
Advances to staff	21 410	*15 094*
Accrued income	22 753	*175 299*
Miscellaneous receivables	1 014	*118 808*
Receivable from UK Government authority	206 400	-
Sub-total	**523 767**	***604 947***
Provision for Miscellaneous receivables	-	*(115 847)*
Total	**523 767**	***489 100***

(a) Taxes recoverable are value added tax (VAT), airport tax and climate change levy recoverable from the United Kingdom Government and VAT recoverable from the French and Spanish Governments under Article 34 of the 1992 Fund Convention.

(b) Accrued interest on overdue contributions as at 31 December 2017 was £56 793. The amount of £32 672 included in 'Other receivables' is net of the provision for interest on contributions due from some contributors amounting to £24 121 as set out in Note 5. Interest on overdue contributions of £14 534 was written off in the 2017 Financial Statements, including interest due (£1 744) from three contributors in liquidation/bankruptcy. This has been written off because interest on overdue contributions after the date of liquidation/bankruptcy cannot be claimed.

(c) Prepayments are payments in advance of goods and service delivery.

(d) Advances to staff are for travel season tickets and subscriptions to the health insurance scheme.

(e) Accrued income relates to amounts to be reimbursed by the P&I Clubs for joint costs in relation to the *Prestige* and *Hebei Spirit* incidents.

(f) An amount of £206 400 was receivable from a United Kingdom Government authority related to the rental of the Secretariat's office premises (see Note 22).

5 **Provision for contributions and interest on overdue contributions**

As set out in Note 3, contributions receivable is net of the provision for contributions. The total provision of £205 603 is made up of £181 482 in contributions and £24 121 in interest on overdue contributions. A total amount of £52 885 is due from three contributors in the Russian Federation, and a total of £152 718 is due from four other contributors in liquidation proceedings.

Contributor	Contributors from the Russian Federation			Petroplus - UK & France	O W Bunker - Denmark	SAMIR - Morocco	
	Legal action 2011	Legal action 2014	No legal action taken	Liquidation	Bankruptcy	Bankruptcy	
Contributions							
2016 provision	665 805		14 676	51 500	1 694	28 445	762 120
Contributions written off	(665 805)	-	-	-	-	-	(665 805)
Contributions received	-	-	-	(774)	-	-	(774)
Provision for 2017 contributions levied	-	12 994	18 726	30 408	2 430	21 383	85 941
Total provision for contributions	**-**	**12 994**	**33 402**	**81 134**	**4 124**	**49 828**	**181 482**
Interest on contributions							
2016 provision	147 397	4 125	1 409			17 632	170 563
Interest written off	(147 397)	(508)	-	-	-	-	(147 905)
Interest received	-	-	-	-	-	-	-
Provision for 2017 interest	-	773	690	-	-	-	1 463
Total provision for interest on contributions	**-**	**4 390**	**2 099**	**-**	**-**	**17 632**	**24 121**
Total provision for contributions and interest	**-**	**17 384**	**35 501**	**81 134**	**4 124**	**67 460**	**205 603**

Provision	Contributions outstanding	Interest on contributions outstanding	Total
Opening balance	762 120	170 563	932 683
Amounts written off	(665 805)	(147 905)	(813 710)
Amounts added to provision for contributions and interest, less amounts received (Statement II)	85 167	1 463	86 630
Closing balance	**181 482**	**24 121**	**205 603**

Contributors from the Russian Federation

At its October 2017 session, the 1992 Fund Assembly authorised the Director to write off contributions due from two contributors in the Russian Federation through legal action in 2011, amounting to £665 805 plus interest thereon, which amounted to £147 397 (IOPC/OCT17/11/1 para 5.2.14).

Legal action against one contributor from the Russian Federation (starting 2014) resulted in the recovery of contributions. Interest of £508 accrued from the commencement of legal action to the date of payment of contributions was written off in 2017.

Legal action against another contributor from the Russian Federation (starting 2014) resulted in recovery of contributions. Related interest of £3 617 accrued from the commencement of legal action to the date of payment of contributions remains unpaid. This contributor has since been levied £12 994 in contributions due to the *Alfa I* Major Claims Fund in March 2017, and accrued further interest of £773.

The provision also includes contributions and interest on overdue contributions (£35 501) due from a further contributor in the Russian Federation. Based on the decision of the Assembly at the October 2016 session the Secretariat continues discussions with the authority in the Russian Federation to recover the contributions and no legal action has been taken in this case.

Contributors in liquidation/bankruptcy

One interim dividend of £774 was received in 2017 from the Petroplus company based in Switzerland for oil received in France. An amount of £18 334 due in 2017 from Petroplus in Switzerland was rejected by the liquidator on the grounds that the refinery in France was not the same entity as the holding company in Switzerland. This amount was written off in 2017. An additional provision has been made for contributions due to the *Alfa I* Major Claims Fund of £30 408 due from the Petroplus company based in the United Kingdom. The 1992 Fund Assembly, at its October 2014 session, decided that after the receipt of final settlement from liquidators any balances due from these two contributors should be written off (IOPC/OCT14/11/1 para 5.2.17).

The 2017 levy for contributions to the *Alfa I* Major Claims Fund has increased the provisions for bankrupt contributors in Denmark and Morocco by £2 430 and £21 383 respectively.

6 **Due from HNS Fund**

At its first session, the 1992 Fund Assembly instructed the Director to carry out the tasks necessary for the setting up of the HNS Fund, as requested by the HNS International Conference (document 92FUND/A.1/34, paragraph 33.1.1–33.1.3), on the basis that all expenses would be repaid by the HNS Fund when established. As a result of this decision any expenses relating to the preparation for the entry into force have been treated as loans from the 1992 Fund.

The HNS Fund will be established when the HNS Convention comes into force. The HNS Convention will come into force 18 months following the ratification by 12 States, fulfilling the conditions as laid down in the HNS Protocol. Eight States (Canada, Denmark, France, Germany, Greece, the Netherlands, Norway, and Turkey) signed the 2010 HNS Protocol, subject to ratification. As at 31 December 2017, one State (Norway) had deposited its instrument of ratification or accession to the 2010 HNS Protocol.

An amount of £353 028 *(2016 Financial Statements – £341 551)*, including interest to date of £38 097, is due from the HNS Fund. The Director considers that progress towards the establishment of the Convention supports expectation of recovery of this balance.

7 Property, plant & equipment

	Computer equipment £	Office fixtures and fittings £	Telephone equipment £	Total £
Cost				
Opening balance, 01/01/2017	186 380	32 361	25 459	244 200
Additions	3 632	5 656	-	9 288
Disposals	(198)	-	-	(198)
Closing balance, 31/12/2017	189 814	38 017	25 459	253 290
Depreciation				
Accumulated depreciation, 01/01/2017	119 613	8 492	16 124	144 229
Depreciation on disposals	-	-	-	-
Depreciation charge for the year	31 792	6 228	5 091	43 111
Closing balance, 31/12/2017	151 405	14 720	21 215	187 340
Net book value				
Opening balance, 01/01/2017	66 767	23 869	9 335	99 971
Closing balance, 31/12/2017	38 409	23 297	4 244	65 950

8 Intangible assets

	Purchased software £
Cost	
Opening balance, 01/01/2017	57 870
Additions	-
Disposals	-
Closing balance, 31/12/2017	57 870
Amortisation	
Accumulated amortisation charge, 01/01/2017	47 272
Amortisation charge on disposals	-
Amortisation charge for the year	7 266
Closing balance, 31/12/2017	54 538
Net book value	
Opening balance, 01/01/2017	10 598
Closing balance, 31/12/2017	3 332

9 Payables and accruals

	2017	*2016*
	£	*£*
Payables for administrative expenses, lawyers, and experts	654 985	*588 262*
Accruals for administrative expenses, lawyers, and experts	565 545	*225 453*
Total	1 220 530	*813 715*

10 Provision for compensation

Provision is made for all compensation claims as follows:

Table A (movement in provision in local currency)

	General Fund	*Prestige* MCF	*Hebei Spirit* MCF	*Volgoneft 139* MCF	*Alfa I* MCF
2016 provision	OMR 44 703	EUR 84 781	KRW 90 529 626 414	RUB 244 836 998	EUR 100 000
Less: brought forward provision paid in 2017	(OMR 44 703)	-	(KRW 70 063 936 904)	(RUB 244 836 998)	-
New provision made in 2017	OMR 34 317	EUR 27 919 958	KRW 7 025 358 357	-	-
2017 provision	**OMR 34 317**	**EUR 28 004 739**	**KRW 27 491 047 867**	**-**	**EUR 100 000**

Table B (movement in provision in pounds sterling)

	General Fund	*Prestige* MCF	*Hebei Spirit* MCF	*Volgoneft 139* MCF	*Alfa I* MCF	TOTAL
2016 provision	93 953	72 370	60 659 637	3 245 935	85 361	64 157 256
Less: brought forward provision paid in 2017	(93 953)	-	(46 946 543)	(3 245 935)	-	(50 286 431)
Exchange loss on brought forward provision unutilised in 2017	-	2 884	418 756	-	3 401	425 041
New provision made in 2017	65 880	24 782 494	4 851 110	-	-	29 699 484
2017 provision	**65 880**	**24 857 748**	**18 982 960**	**-**	**88 762**	**43 995 350**

11 Provision for employee benefits

	Short-term	Long-term	Total
2016 provision	211 982	352 198	564 180
Less: brought forward provision paid in 2017	(47 440)		(47 440)
New provision made in 2017	22 660	20 499	43 159
2017 provision	187 202	372 697	559 899

12 Prepaid contributions

The amount of £900 953 *(2016 Financial Statements – £1 184 272)* represents levy of contributions decided by the 1992 Fund Assembly, due on 1 March 2018 but received in 2017.

13 Contributors' account

The amount of £480 022 *(2016 Financial Statements – £765 279)* is the balance on the contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £1 504 *(2016 Financial Statements – £3 395)* credited in 2017 to contributors.

14 Staff Provident Fund

Provident Fund (Managed by the 1992 Fund–PF1)	2017 £	*2016* *£*
Accounts of staff members as at 1 January	3 688 691	*4 228 157*
RECEIPTS		
Contributions of staff members	205 426	*192 854*
Voluntary contributions of staff members	224 219	*81 169*
Contributions of 1992 Fund	428 852	*385 708*
Transfer from Provident Fund (Externally managed–PF2)	404 008	*-*
Interest received	166 584	*35 957*
Repayment of loans	58 000	*1 000*
Total receipts	**1 487 089**	***696 688***
PAYMENTS		
Transfer to Provident Fund (Externally managed–PF2)	-	*763 000*
Withdrawal on separation	537 488	*381 254*
Housing loans	94 627	*91 900*
Total payments	**632 115**	***1 236 154***
Accounts of staff members as at 31 December (PF1)	**4 543 665**	***3 688 691***

Provident Fund (Externally managed–PF2)		
Transfer from Provident Fund (PF1)	(404 008)	*763 000*
Valuation as at 31 December (PF2)	**1 012 968**	***1 360 359***

Staff Provident Fund (PF1 & PF2) (Statement I)	**5 556 633**	***5 149 050***

The rate of contribution to the Provident Fund for staff members is 7.9% of their respective pensionable remuneration and for the 1992 Fund 15.8% of that remuneration, pursuant to Staff Rule VIII.5(b). At its October 2009 session, the 1992 Fund Administrative Council decided that staff members could make additional voluntary contributions of up to 5% of the pensionable remuneration to the Provident Fund. At its April 2017 session, the 1992 Fund Administrative Council decided to increase this additional voluntary contribution to 23.7% of the staff member's pensionable remuneration.

The Provident Fund is made up of two elements, namely Provident Fund (PF1), which is invested with the 1992 Fund assets, and Provident Fund (PF2), which is managed by an independent financial broker in the name of the 1992 Fund.

All contributions are credited to PF1. Investing in PF2 is made only from the cash balance available in PF1. There is no possibility of investing private funds in PF2. Amounts withdrawn from PF2 are credited to PF1.

The amount in PF1 is invested together with the 1992 Fund's assets. Interest is calculated and fixed monthly by the Director based on the rate of return of investments held during that month.

Participation in PF2 is entirely voluntary and new staff members can only participate in PF2 after completing one year of service in the Secretariat. All fees paid by those participating in PF2 are based on the proportion of their investment in PF2. As set out above PF2 is managed by an independent financial broker and £404 008 was withdrawn from the broker in 2017. As at 31 December 2017 value of the amount managed by the broker was £1 012 968.

Housing loans from the Provident Fund represent loans taken by staff members in accordance with Staff Rule VIII.5(j). The loan shall be repaid in a manner to be agreed between the staff member and the Director. In any event the loan shall be repaid on the staff member's separation from the 1992 Fund by means of deduction from the monies payable.

The staff member's share in the Provident Fund is payable upon separation of the staff member from the 1992 Fund in accordance with the Fund's Staff Rules VIII.5(e).

15 Funds' balances

The 1992 Fund holds fund balances classified into General Fund and Major Claims Funds. The General Fund currently includes a working capital of £22 million, as decided by the 1992 Fund Assembly at its October 2004 session. The working capital is established to ensure that the 1992 Fund is in a position to meet compensation and claims-related expenses which may occur between the regular sessions of the governing bodies. See Note 25 for segment reporting by fund.

16 Financial instruments

Details of the significant accounting policies adopted, including the basis of measurement and the basis on which income and expense are recognised in respect of the financial instruments are set out in Note 1.

All financial assets held during 2017 are classified as loans and receivables and are non-derivative financial assets with fixed payments and a fixed maturity for which the organisation has the intention and the ability to hold to maturity.

16.1 Credit risk

(a) The 1992 Fund's credit risk is spread widely and its risk management policies limit the amount of credit exposure to any counterparty and include minimum credit quality guidelines.

The guidelines include market and capital strength measures in addition to the credit rating provided by the three rating agencies. Credit default swaps (CDS) and Tier One capital ratio are the additional measures that are to determine the counterparty list. The guidelines are as follows:

(i) Tier One capital ratio of at least 9.5% or higher.
(ii) Five-year credit default swap (CDS) spread of a maximum of 100 basis points. A breach of which would trigger a review to ascertain whether the credit markets were weaker in general, or whether the creditworthiness of the counterparty concerned was subject to a particular credit-negative event, that would warrant its temporary, or permanent exclusion from the lending list.
(iii) Minimum short-term credit rating from two of the three main credit rating agencies, Fitch, Moody's and Standard & Poor's as follows:
- For maturities of up to 12 months (Group 1) of F1+, P1 and A1+; and
- for maturities of up to six months (Group 2) of F1, P1 and A1.

(b) A list of approved financial institutions is prepared by the joint Investment Advisory Body (IAB) on a quarterly basis and approved by the Director. This list is kept under constant review by the IAB between meetings and the Secretariat is advised accordingly.

(c) Contributions receivable comprise primarily of amounts due from contributors in Member States. The Convention places an obligation on Member States to ensure that contributors fulfil their obligation to pay contributions. Details of contributions receivable are provided in Note 3.

16.2 Liquidity risk

The 1992 Fund Convention provides the Assembly with authority to levy contributions that may be required to balance the payments to be made by the 1992 Fund.

Liquidity risk associated with cash and cash equivalents is minimised substantially by ensuring that these financial assets are placed in term deposits not exceeding one year. It is ensured that in compliance with the investment guidelines on liquidity, the working capital set by the Assembly in October 2004 of £22 million is available within three months to support operational requirements.

16.3 Interest rate risk

The 1992 Fund places its cash investments in term deposits with fixed interest rates under strict investment guidelines. The Financial Regulations of the 1992 Fund focus on the security and liquidity of the assets rather than maximising revenue and this is taken into account in managing the liquidity (cash flow) risk.

The table below shows the average interest rate earned on investments in the different currencies and the effect in pounds sterling of a change of 0.25% in interest rate earned.

Investment	Average interest rate earned 2017 %	Effect of increase/decrease by 0.25% £
Pounds sterling	0.51	152 940
Korean won	0.74	100 549
Russian rouble	7.07	5 033
US dollar	0.75	9 693

16.4 Foreign currency risk

Hedging guidelines were developed in 2008 with advice from the IAB. For an incident in respect of which compensation will be paid in a currency other than pound sterling, in principle the aim is to hedge up to 50% of the liability of an incident but not more than the sum of the levies approved less the Fund's anticipated expenses within a six-month period after a levy has been approved.

The rationale behind the hedging policy is that hedging 50% of the foreign exchange liability constitutes a neutral position whichever way the exchange rate was to move.

As at 31 December 2017, cash and cash equivalents were held in pounds sterling (56%), euros (22%), Korean won (17%), US dollars (5%) and Russian roubles (less than 1%) (see Note 2).

As at 31 December 2017, the foreign exchange liability in euros in respect of the *Prestige* incident was adequately hedged at 79%.

In respect of the *Hebei Spirit* incident, as at 31 December 2017, the amount hedged stands at 48% based on a liability of some KRW 179.3 billion based on the rate of exchange on 13 March 2008, the date when the 1992 Fund Executive Committee, at its 40th session, authorised the payment of compensation.

17 Contributions

At its session in October 2016, the 1992 Fund Assembly decided to levy contributions (2016 contributions) to the General Fund of £9.7 million and to the *Alfa I* Major Claims Fund of £6.4 million payable by 1 March 2017.

Contributions invoiced for payment in 2017 are summarised below:

	2016 levy payable by 1 March 2017 £	Previous years' levies £	Adjustment in levy £	Total £
General Fund	9 582 131	414 624	-	9 996 755
Prestige Major Claims Fund	-	-	-	-
Hebei Spirit Major Claims Fund	-	947 780	-	947 780
Volgoneft 139 Major Claims Fund	-	53 921	-	53 921
Alfa I Major Claims Fund	6 307 362	-	(22 897)	6 284 465
Total	**15 889 493**	**1 416 325**	**(22 897)**	**17 282 921**

Contributions invoiced in 2017 include levies based on contributing oil reports received late amounting to £1 416 325. This is in accordance with Accounting policy 1(c) on contributions relating to late submission of oil reports, where the amount is recognised as income on the date of the invoice.

An amount of £18 334 due in 2017 from Petroplus in Switzerland was rejected by the liquidator on the grounds that the refinery in France was not the same entity as the holding company in Switzerland. This amount has been written off. A further amount of £4 563 due in 2017 from a contributor in Malaysia has been written off as the company has gone into liquidation.

18 **Contributions-in-kind**

The United Kingdom Government meets 80% of the costs related to the rental of the Secretariat offices and storage space. The total rental payments made in 2017 amounted to £258 000 *(2016 Financial Statements – £405 190)* with the United Kingdom Government's share being £206 400 *(2016 Financial Statements – £324 152)* (see Notes 22 and 27).

19 **Other revenue**

	2017 £	*2016* *£*
Management fee payable by the Supplementary Fund	34 000	*34 000*
Interest on overdue contributions	11 087	*27 063*
Interest on loans to HNS Fund	1 685	*1 877*
Interest on loans to *Alfa I* Major Claims Fund	10 449	*7 784*
Sundry income	1 572	*4 648*
Total	**58 793**	***75 372***

The management fee was set in the budget at £34 000 *(2016 Financial Statements – £34 000)* for the Supplementary Fund for the period 1 January to 31 December 2017 (document IOPC/OCT16/11/1, paragraph 9.1.25).

20 **Compensation claims**

Compensation is recognised on a cash basis in Annex I, Attachment II, and can be reconciled to compensation paid in Statement II as follows:

	General Fund	*Prestige* MCF	*Hebei Spirit* MCF	*Volgoneft 139* MCF	*Alfa I* MCF	Total
Compensation paid on cash basis in 2017 (Attachment II)	202 292	-	48 147 120	3 113 345	-	51 462 757
Less: brought forward provision paid in 2017 (Note 10)	(93 953)	-	(46 946 543)	(3 245 935)	-	(50 286 431)
Exchange gain/(loss) on brought forward provision paid in 2017 (Note 24)	667	-	(1 198 717)	(4 684)	-	(1 202 734)
New provision made in 2017 (Note 10)	65 880	24 782 494	4 851 110	-	-	29 699 484
Compensation recognised on accrual basis (Statement II)	**174 886**	**24 782 494**	**4 852 970**	**(137 274)**	**-**	**29 673 076**

Foreign currency is held for the purpose of making payments of compensation and any exchange loss on the payment is compensated by an exchange gain on the revaluation of the foreign currency (see Note 24).

Payments by the General Fund include compensation paid in respect of *Nesa R3* (£174 192) and *Volgoneft 139* (£28 100) incidents.

21 **Claims-related expenses**

Under the Memorandum of Understanding (MoU) between the International Group of P&I Clubs (shipowner's insurers) and the 1992 Fund, joint claims-related costs are apportioned between the P&I Clubs and the 1992 Fund based on their respective compensation liability.

Fund	Claims-related expenses paid in 2017 £	Joint costs received/receivable from P&I Club in 2017 £	Claims-related expenses 2017 (Statement II) £	*Claims-related expenses 2016 (Statement II) £*
General Fund	1 226 990	-	1 226 990	*156 729*
Prestige MCF	588 509	(23 310)	565 199	*421 860*
Hebei Spirit MCF	896 201	(64 218)	831 983	*1 940 428*
Volgoneft 139 MCF	21 895	-	21 895	-
Alfa I MCF	189 471	-	189 471	*133 515*
Total	**2 923 066**	**(87 528)**	**2 835 538**	***2 652 532***

In 2017 an amount of £87 528 *(2016 Financial Statements – £356 917)* was invoiced under the MoU to the following P&I Clubs:

- The London Steam-Ship Owners' Mutual Insurance Association Limited (London P&I Club) – *Prestige* incident (£23 310)
- Assuranceföreningen Skuld (Gjensidig) (Skuld Club)– *Hebei Spirit* incident (£64 218)

22 **Staff, other personnel and administrative costs**

Expenses were made under seven Chapters as set out in the table below:

	Chapter	Expenses 2017 (Statement II) £	*Expenses 2016 (Statement II) £*
I	Personnel	2 912 578	*2 780 970*
II	General services	961 885	*1 008 868*
III	Meetings	128 846	*109 426*
IV	Travel	111 603	*95 753*
V	Miscellaneous expenditure	316 143	*372 200*
VI	Unforeseen expenditure		*60 881*
VII	External audit fees	43 200	*50 000*
	Total	**4 474 255**	***4 478 098***

Chapter II, General services, includes £206 400, equivalent to 80% of the rent due on the Secretariat's office premises and an amount reimbursed by the Government of the United Kingdom (see Note 18). Chapter II also includes £101 712 payable for benefits received in 2017 on a multi-year lease for the Secretariat's office premises (see Note 27) and depreciation charges of £50 377 (see Note 7 and Note 8).

23 Statement of Comparison of Budget and Actual Amounts

The 1992 Fund's budget and Financial Statements are prepared using different bases. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, and Statement of Cash Flow are prepared on a full accruals basis using a classification based on the nature of expenses in the Statement of Financial Performance, whereas the Statement of Comparison of Budget and Actual Amounts (Statement V) is prepared on a commitment accounting basis.

As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the Financial Statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the Financial Statements, identifying separately any basis, presentation, entity, and timing differences.

Basis differences occur when the approved budget is prepared on a basis other than the accounting basis. For the 1992 Fund, the budget is prepared on the commitment basis and the Financial Statements are prepared on the accruals basis.

Presentation differences are due to differences in the format and classification schemes adopted for presentation of Statement of Financial Performance and Statement of Comparison of Budget and Actual Amounts.

Entity differences occur when the budget omits programmes or entities that are part of the entity for which the Financial Statements are prepared. The budget relates only to the joint Secretariat's administrative expenses.

Timing differences occur when the budget period differs from the reporting period reflected in the Financial Statements. There are no timing differences for 1992 Fund for purposes of comparison of budget and actual amounts.

Reconciliation between the actual amounts on a comparable basis in the Statement of Comparison of Budget and Actual Amounts (Statement V) and the actual amounts in the Statement of Financial Performance (Statement II) for the year ended 31 December 2017 is presented below:

	£
Statement V	**4 081 696**
Contributions-in-kind (Note 18)	206 400
Accrued lease expenditure	101 713
Purchase of fixed assets (Notes 7 and 8)	(9 090)
Depreciation and amortisation (Notes 7 and 8)	50 377
New provision for employee benefits made in 2017 (Note 11)	43 159
Compensation claims (Note 20)	29 673 076
Claims-related expenses (Note 21)	2 835 538
Currency exchange differences (Note 24)	(319 884)
Provision for 2017 contributions and interest less amounts received (Note 5)	86 630
Statement II	**36 749 615**

24 Currency exchange differences

As at 31 December 2017 there was a notional exchange gain of £319 884 *(2016 gain – £2 619 012)* made up as follows:

	Gain/(Loss) 2017 £	*Gain/(Loss)* *2016* *£*
Currency revaluation <3>	1 946 414	*12 862 128*
Revaluation of taxes	1 245	*458*
Exchange difference on 2016 provision paid in 2017 (Note 20)	(1 202 734)	*(3 927 815)*
Increase in cost of unutilised 2016 provision due to currency revaluation (Note 10)	(425 041)	*(6 315 759)*
TOTAL	**319 884**	***2 619 012***

Movement of exchange rates from the beginning to the end of the reporting period:

	31/12/2016	31/12/2017
EUR:GBP	1.1715	1.1266
KRW:GBP	1 492.4195	1 448.1961
RUB:GBP	75.4288	77.8800
USD:GBP	1.2357	1.3528
OMR:GBP	0.4758	0.5209

Korean won strengthened against pounds sterling during 2017 resulting in an exchange gain on currency held, which was offset against exchange losses arising out of Korean won payments of compensation which had a higher pound sterling value than the provision held or established at 31 December 2016.

The euro strengthened against the pound during 2017, resulting in an exchange gain on revaluation of currency held at year end. The US dollar and the Russian rouble both weakened against the pound, resulting in exchange losses for these currencies upon revaluation.

<3> Currency revaluation arising from translation of all monetary assets held at the end of the reporting period in currencies other than pounds sterling, as well as currency transfers between accounts during the year.

25 Segment reporting

Segment reporting has been made on the basis that the 1992 Fund classifies its activities into the General Fund and Major Claims Funds.

The General Fund covers the 1992 Fund's expenses for the administration of the Secretariat and for compensation payments and claims-related expenditure for minor incidents, up to a maximum amount of the pound sterling equivalent of SDR 4 million per incident and includes the working capital.

In 2017 the General Fund covered the expenses for *Agia Zoni II, Dawn Kanchipuram, Double Joy, Haekup Pacific, JS Amazing, MT Pavit, Nesa R3, Redfferm, Solar I, Trident Star*, and *Volgoneft 139* (in part) incidents as part of the first SDR 4 million of payments in respect of any one incident payable by the General Fund.

In accordance with the Financial Regulations 7.1 (c) I.V, the General Fund made a loan in 2016 to the *Alfa I* Major Claims Fund to make payment of compensation. The balance of the loan carried forward to 2017 was £6 722 531 and this was reduced by contributions received for the *Alfa I* Major Claims Fund leaving a remaining balance of £1 288 429.

There were four Major Claims Funds in 2017 established for ongoing incidents. Levies of contributions are made for a Major Claims Fund from which amounts are expensed for that incident (compensation and claims-related expenses):

- *Prestige* Major Claims Fund was set up in 2003 for the incident in Spain (2002);
- *Hebei Spirit Major* Claims Fund was set up in 2008 for the incident in Republic of Korea (2007);
- *Volgoneft 139 Major* Claims Fund was set up in 2013 for the incident in Russian Federation (2007); and
- *Alfa I* Major *Claims* Fund was set up in 2015 for the incident in Greece (2012).

a) Statement of Financial Position by segment

	General Fund	*Prestige* MCF	*Hebei Spirit* MCF	*Volgoneft 139* MCF	*Alfa I* MCF	Total 2017	*Total 2016*
ASSETS	£	£	£	£	£	£	*£*
Current assets							
Cash and cash equivalents	26 903 538	26 422 123	42 389 393	3 709 069	-	99 424 123	*137 364 300*
Contributions receivable	104 823	21 687	123 489	8 957	40 656	299 612	*243 716*
Other receivables	406 981	32 580	74 177	8 363	1 666	523 767	*489 100*
Staff Provident Fund (externally managed)	1 012 968	-	-	-	-	1 012 968	*1 360 359*
Total current assets	**28 428 310**	**26 476 390**	**42 587 059**	**3 726 389**	**42 322**	**101 260 470**	***139 457 475***
Non-current assets							
Due from HNS Fund	353 028	-	-	-	-	353 028	*341 551*
Property, plant and equipment	65 950	-	-	-	-	65 950	*99 971*
Intangible assets	3 332	-	-	-	-	3 332	*10 598*
Total non-current assets	**422 310**	**-**	**-**	**-**	**-**	**422 310**	***452 120***
TOTAL ASSETS	**28 850 620**	**26 476 390**	**42 587 059**	**3 726 389**	**42 322**	**101 682 780**	***139 909 595***
LIABILITIES							
Current liabilities							
Payables and accruals	871 107	118 428	229 607	1 388	-	1 220 530	*813 715*
Provision for compensation	65 880	24 857 748	18 982 960	-	88 762	43 995 350	*64 157 256*
Provision for employee benefits (short term)	187 202	-	-	-	-	187 202	*211 982*
Prepaid contributions	900 953	-	-	-	-	900 953	*1 184 272*
Contributors' account	480 022	-	-	-	-	480 022	*765 279*
Loan from GF to *Alfa I*	(1 288 429)	-	-	-	1 288 429	-	*-*
Total current liabilities	**1 216 735**	**24 976 176**	**19 212 567**	**1 388**	**1 377 191**	**46 784 057**	***67 132 504***
Non-current liabilities							
Staff Provident Fund	5 556 633	-	-	-	-	5 556 633	*5 049 050*
Provision for employee benefits (long term)	372 697	-	-	-	-	372 697	*352 198*
Total non-current liabilities	**5 929 330**	**-**	**-**	**-**	**-**	**5 929 330**	***5 401 248***
TOTAL LIABILITIES	**7 146 065**	**24 976 176**	**19 212 567**	**1 388**	**1 377 191**	**52 713 387**	***72 533 752***
NET ASSETS	**21 704 555**	**1 500 214**	**23 374 492**	**3 725 001**	**(1 334 869)**	**48 969 393**	***67 375 843***
FUNDS' BALANCES							
Balance b/f: 1 January	17 446 504	26 063 584	27 796 868	3 411 470	(7 342 583)	67 375 843	*87 352 870*
(Deficit)/Surplus for the year	4 258 051	(24 563 370)	(4 422 376)	313 531	6 007 714	(18 406 450)	*(19 977 027)*
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES	**21 704 555**	**1 500 214**	**23 374 492**	**3 725 001**	**(1 334 869)**	**48 969 393**	***67 375 843***

b) Statement of Financial Performance by segment

	General Fund	*Prestige* MCF	*Hebei Spirit* MCF	*Volgoneft 139* MCF	*Alfa I* MCF	Total 2017	*Total 2016*
REVENUE	£	£	£	£	£	£	*£*
Contributions	9 996 755	-	947 780	53 921	6 284 465	17 282 921	*5 703 542*
Contributions-in-kind	206 400	-	-	-	-	206 400	*324 152*
Interest on investments	130 352	40 960	454 961	168 778	-	795 051	*1 071 825*
Other revenue	52 445	496	2 988	202	2 662	58 793	*75 372*
Total revenue	**10 385 952**	**41 456**	**1 405 729**	**222 901**	**6 287 127**	**18 343 165**	***7 174 891***
EXPENSES							
Compensation claims	174 886	24 782 494	4 852 970	(137 274)	-	29 673 076	*22 047 118*
Claims-related expenses	1 226 990	565 199	831 983	21 895	189 471	2 835 538	*2 652 532*
Personnel costs	2 912 578	-	-	-	-	2 912 578	*2 780 970*
Other administrative costs	1 561 677	-	-	-	-	1 561 677	*2 327 570*
Movement in provision for relocation	-	-	-	-	-	-	*(17 097)*
Currency exchange differences	251 680	(742 867)	143 152	24 749	3 402	(319 884)	*(2 619 012)*
Increase/(decrease) in allowance for contributions and interest on overdue contributions	90	-	-	-	86 540	86 630	*(20 163)*
Total expenses	**6 127 901**	**24 604 826**	**5 828 105**	**(90 630)**	**279 413**	36 749 615	***27 151 918***
(DEFICIT)/SURPLUS FOR THE YEAR	**4 258 051**	**(24 563 370)**	**(4 422 376)**	**313 531**	**6 007 714**	(18 406 450)	***(19 977 027)***

26 Contingent liabilities

The figures have been compiled using data available to 3 April 2018. Since then no significant changes have taken place.

It should be noted that any estimate in this document of amounts to be paid by the 1992 Fund in compensation has been made solely for the purpose of assessment of contingent liabilities, without prejudice to the position of the 1992 Fund in respect of the claims. The estimated expenditure under the item 'Other costs' relates to legal and technical costs for the next financial year, i.e. for 2018. The rate applied is the rate of exchange for the pound sterling against various currencies on 31 December 2017 as published in the London Financial Times.

There are contingent liabilities of the 1992 Fund estimated at £69 210 000 *(2016 – £46 254 000)* in respect of 10 incidents as at 31 December 2017.

Details of the contingent liabilities, given in rounded figures, are set out below:

	Incident	Date	Contingent liabilities at 31.12.17				*2016 Total £*
			Compensation		Other costs £	Total £	
				£			
1	*Prestige*	13.11.02		-	600 000	**600 000**	*24 650 000*
2	*Solar 1*	11.08.06	STOPIA 2006	-	10 000	**10 000**	*10 000*
3	*Volgoneft 139*	11.11.07	Incident closing			-	*100 000*
4	*Hebei Spirit*	07.12.07	KRW 22.6bn	15 600 000	1 500 000	**17 100 000**	*21 300 000*
5	*Redfferm*	30.03.09		-	5 000	**5 000**	*5 000*
6	*JS Amazing*	06.06.09	Incident closed			-	*5 000*
7	*Haekup Pacific*	20.04.10	STOPIA 2006	-	5 000	**5 000**	*5 000*
8	*MT Pavit*	31.07.11	Incident closed			-	*10 000*
9	*Alfa I*	05.03.12		-	100 000	**100 000**	*100 000*
10	*Nesa R3*	19.06.13		-	50 000	**50 000**	*54 000*
11	*Shoko Maru*	29.05.14	Incident closed			-	*5 000*
12	*Double Joy*	05.08.14	STOPIA 2006	-	40 000	**40 000**	-
13	*Trident Star*	24.08.16	STOPIA 2006	-	100 000	**100 000**	*10 000*
14	*Agia Zoni II*	10.09.17	€56 million	50 000 000	1 200 000	**51 200 000**	-
	TOTAL			**65 600 000**	**3 610 000**	**69 210 000**	**46 254 000**

Prestige

In November 2017 the Civil Court in La Coruña (Audiencia Provincial) delivered a judgment on the quantification of the losses resulting from the *Prestige* incident, awarding over €1.6 billion in compensation.

The total amount of the established claims in the *Prestige* incident exceeds the maximum amount available for compensation under the 1992 Conventions, SDR 135 million corresponding to €171 520 703 (€22.8 million under the 1992 Civil Liability Convention (1992 CLC) and €148.7 million under the 1992 Fund Convention).

By the end of 2017, the 1992 Fund had paid a total of some €120.7 million, including €57 555 000 and €56 365 000 paid to the Spanish State in 2003 and 2006 respectively, €328 488 to the Portuguese State in 2006 and €5.5 million to French claimants. The balance payable by the 1992 Fund in compensation is some €28 million (£24.8 million) *(2016 Financial Statements – €28 million).*

Following the judgment of the Civil Court in La Coruña mentioned above, it is certain that the 1992 Fund will have to pay the totality of the balance of €28 million and this has been provided for in 2017.

For the purposes of contingent liabilities, fees and other costs are estimated at £600 000 for 2018 *(2016 Financial Statements – £750 000)*.

Solar 1

The owner of the *Solar 1* is a party to the Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006 whereby the limitation amount applicable to the tanker is increased, on a voluntary basis, to SDR 20 million. It is very unlikely that the amount of compensation payable in respect of this incident will exceed the STOPIA 2006 limit of SDR 20 million and therefore very unlikely that the 1992 Fund will be called upon to pay compensation.

Under STOPIA 2006 compensation payments made over the CLC limit are paid initially by the 1992 Fund and reimbursed by the relevant P&I Club up to the maximum amount of SDR 20 million.

For the purpose of the contingent liabilities, therefore only costs are estimated at an amount of £10 000 for 2018 *(2016 Financial Statements – £10 000)*.

Volgoneft 139 – incident closing

The shipowner's insurance cover is limited to SDR 3 million which is well below the minimum limit under the 1992 CLC of SDR 4.51 million. There is therefore an 'insurance gap' of some SDR 1.5 million.

In July 2012 the Arbitration Court of Saint Petersburg and Leningrad Region delivered its judgment on quantum, which awarded claimants RUB 503.2 million including legal interest. In the judgment it was held that the insurers had a liability of SDR 3 million in accordance with Russian law as published in the official Gazette at the time of the incident. The 1992 Fund appealed against the judgment.

At its April 2013 session, the 1992 Fund Executive Committee decided to authorise the Director to pay according to the Court ruling in July 2012 of some RUB 337 million. The private claimants were to be paid in full and the three government claimants were to be paid with pro-rated deductions to cover the 'insurance gap'. By the end of 2013 the 1992 Fund had paid private claimants a total of RUB 76.2 million (£1.5 million). The 1992 Fund's offer to the remaining three government claimants of payment of their losses was not taken up.

In a judgment delivered in November 2014, the Arbitration Court of Saint Petersburg and Leningrad Region decided that the 'insurance gap' should be allocated between all the claimants on an equal basis. According to this judgment, the 1992 Fund had overpaid the private claimants.

Three of the four private claimants that were overpaid by the Fund have returned the amounts overpaid. With regard to the fourth private claimant, upon consideration of the uncertain chances of the Fund recovering the amount of RUB 503 337 (£6 497) owed by the claimant, and given the substantial additional legal costs that further attempts to recover the overpaid amounts would involve, the Director decided to discontinue the recovery process in relation to this claimant.

The 1992 Fund has paid the amounts awarded by the November 2014 judgment to the three government claimants that remained to be paid: local government, regional government and a federal agency.

As the Fund has already complied with its obligations under the 1992 Fund Convention, it has paid the amounts owed to claimants, and the process of recovering overpaid amounts has concluded, the Director considers that this incident can be closed. Therefore, no contingent liabilities have been recognised for the year 2018 in relation to this incident.

Hebei Spirit

The Seosan Court has been seeking to encourage out-of-court settlements by proposing mediation settlements to the parties in cases where matters of principle were not under discussion. A major portion of the 127 843 claims submitted in the limitation proceedings has been resolved by judgments, mediation or withdrawn. These decisions have become final. The provision has been based on the final judgments and mediations. Only a small number of claims are still pending before the Korean Courts, as 99.9 % of the claims submitted in court have been finalised. The total amount awarded for these claims is KRW 432.6 billion. Therefore it is clear that the total amount of established claims in respect of this incident will exceed SDR 203 million corresponding to KRW 321.6 billion, the maximum amount available for compensation under the 1992 Conventions.

The initial level of payments had been set at 35% in June 2008 and increased to 50% in October 2015. In April 2016, the 1992 Fund Executive Committee decided to increase the level of payments from 50% to 60% of the established losses taking into account the number of claims pending at that time and the amount already awarded for the finalised claims.

The shipowner's insurer, the Skuld Club reached the limit as per its Letter of Undertaking in 2015 and the 1992 Fund commenced making compensation payments. As at 31 December 2017, the 1992 Fund has made compensation payments totalling KRW 107.3 billion to the Republic of Korea, including an advance payment totalling KRW 40 billion. The 1992 Fund has also made a balancing payment totalling KRW 22 billion to the Skuld Club.

The joint cost expenditure until 31 December 2012 was made by the shipowner's insurer and since then by the 1992 Fund. An estimated proportion of joint costs are settled between the shipowner's insurer and the 1992 Fund on a periodic basis.

Since there has been no decision as at 31 December 2017 by the Limitation Court, the shipowner's insurer has paid on the basis of their Letter of Undertaking.

A table showing liabilities, payments made to date by the 1992 Fund, the provision recognised at 31 December 2017 and contingent liabilities for the 1992 Fund is set out below:

	SDR	KRW	KRW
		Based on date of decision of Executive Committee (Exchange rate on 13 March 2008)	Based on Skuld Club's Letter of Undertaking (Exchange rate in force in November 2008)
Maximum amount of compensation payable (rate based on date of decision of Executive Committee (13 March 2008))	203 million	321 618 990 000	321 618 990 000
Paid/Payable by shipowner's insurance	89.77 million	142 225 304 100	186 826 630 900
Payable by 1992 Fund	113.23 million	179 393 685 900	134 792 359 100
Balance amount due to shipowner's insurance		-	44 601 326 800

1992 Fund	SDR	KRW	KRW
Maximum liability (rate based on date of decision of Executive Committee (13 March 2008))	113.23 million	179 393 685 900	134 792 359 100 44 601 326 800 179 393 685 900
Payments made as at 31 December 2017			107 304 071 166
Provision (balance payable to Republic of Korea by 1992 Fund)			27 491 047 867 (£19.0 million)
Contingent liability (liability to be determined by Limitation Court between 1992 Fund and shipowner's insurance)			22 601 326 800 (£15.6 million)

For the purpose of the contingent liabilities, compensation payable is estimated at KRW 22.6 billion (£15.6 million), plus costs payable by the 1992 Fund, including legal costs, estimated at £1.5 million for 2018. The calculation of costs has been made using historical data together with an assessment of the work involved in pending claims in court *(2016 Financial Statements – £1.5 million).*

Redfferm

In late January 2012 the 1992 Fund was informed of an incident which occurred on 24 March 2009 at Tin Can Island, Lagos, Nigeria. Under the 1992 CLC the limit of liability of the barge *Redfferm* is believed to be SDR 4.51 million (£4.6 million) based on a preliminary estimation of the size of the barge.

A claim was filed in March 2012 against the 1992 Fund by 102 communities allegedly affected by the incident for US$26.25 million.

In February 2014, following the October 2013 session of the 1992 Fund Executive Committee, the Secretariat wrote to the claimants rejecting their claims on the basis that the barge *Redfferm* was not a 'ship' within the definition of Article I(1) of the 1992 CLC and because insufficient information had been submitted in support of the claims submitted.

The Director has not been authorised by the 1992 Fund Executive Committee to make payment for this incident. It is expected that some legal costs will be incurred since legal proceedings in Nigeria were continuing and the 1992 Fund would have to defend its position.

For the purpose of the contingent liabilities, fees and other costs for 2018 have been estimated at £5 000 *(2016 Financial Statements – £5 000)*.

JS Amazing – incident closed

In May 2011, the 1992 Fund was informed of a spill which had occurred in June 2009 when the tanker *JS Amazing* spilled an unknown quantity of low pour fuel oil into the Warri River, Delta State, Nigeria. Nigeria is a Party to the 1992 CLC and 1992 Fund Convention. The limit of liability of the owner of the

JS Amazing under the 1992 CLC is estimated to be SDR 4.51 million (£4.36 million). Very little information is available regarding whether the shipowner had pollution liability insurance as required under the 1992 CLC at the time of the incident and if any compensation has been paid by the shipowner or its insurer.

Following the October 2013 session of the 1992 Fund Executive Committee, the Secretariat wrote to the claimants in January and February 2014 rejecting their claims on the basis that insufficient evidence had been submitted in support of the claims.

The Director has not been authorised by the 1992 Fund Executive Committee to make payment for this incident. In 2017, the Fund received notification that the claimants had withdrawn their claim, and the case was dismissed by the Court.

For the purpose of the contingent liabilities, no further liabilities are expected as the incident has been closed.

Haekup Pacific

In April 2013, the Secretariat was informed of an incident which took place in April 2010 in the Republic of Korea. The *Haekup Pacific*, an asphalt carrier of 1 087 GT built in 1983, was involved in a collision with the *Zheng Hang*.

The *Haekup Pacific* was entered as a 'relevant ship' within the definition of STOPIA 2006 and the agreement therefore applies.

The UK P&I Club retained surveyors who estimated that the cost of the oil removal operation would be in the region of US$5 million whereas the wreck (with the cargo on board) removal operation would cost in excess of US$25 million.

In April 2013, the shipowner/UK P&I Club issued legal proceedings against the 1992 Fund in order to protect their rights in respect of any future liability for costs of the removal operations which they might have to pay. The legal proceedings commenced by the shipowner/UK P&I Club were withdrawn in June 2013.

In April 2016, the shipowner and insurer filed a claim for US$25.1 million in accordance with the STOPIA 2006 arrangement against the 1992 Fund before the expiry of the six-year time bar, in order to preserve the shipowner and insurers' rights against the 1992 Fund in the event that they be instructed to comply with the wreck and oil removal orders. However, no decision has yet been taken by the Korean authorities on whether to revoke the oil and wreck removal orders or to enforce them. In 2017, the Court dealing with the dispute between the owners of the colliding vessels decided that since the wreck and oil removal orders remained in place, the *Haekup Pacific* owners/insurers are obliged to remove the wreck and oil on board. As a consequence, it is reasonable to deem that those costs have *de facto* arisen. The colliding vessel interests have appealed against the Seoul High Court's judgment and that matter is now pending at the Supreme Court of Korea.

For the purpose of the contingent liabilities, fees and other costs for 2018 have been estimated at £10 000 *(2016 Financial Statements – £5 000)*.

MT Pavit – incident closed

In April 2014, the 1992 Fund was informed of an incident which took place in July 2011 in India. On 31 July 2011, the *MT Pavit*, a product tanker of 999 GRT built in 1990, ran aground off Juhu Beach, Mumbai, India.

In June 2014, three claims were submitted to the 1992 Fund in respect of towage services, oil removal and clean-up operations, salvage and re-flotation operations, provision of helicopter operations and patrols by the coastguard and ongoing storage costs for the vessel pending sale. In view of the expiry of the three-year time bar, two of the claims, totalling US$1.8 million, were filed at Court, within three years of the date of damage.

Two sets of legal proceedings commenced in July 2014 against the 1992 Fund, one of which was dismissed for want of prosecution. The other set of legal proceedings was withdrawn following the settlement of the claim by the West of England Club, which decided to respond to the claim under the blue card it had issued.

For the purpose of the contingent liabilities, no further fees and other costs will be due in 2018 as there is no liability for the 1992 Fund and this incident is now closed.

Alfa I

The *Alfa I* incident occurred near Piraeus, Greece in March 2012. Greece is a Party to the 1992 CLC, 1992 Fund Convention and the Supplementary Fund Protocol. Since the tonnage of *Alfa I* (1 648 GT) is below 5 000 units, the limitation amount applicable under the 1992 CLC is SDR 4.51 million (€5.22 million). The tanker had an insurance policy limited to €2 million which did not cover pollution by persistent oil.

Six claims totalling €16.1 million were submitted to the shipowner by two clean-up contractors. In addition, a claim by the Greek authorities of €222 000 has been filed against the shipowner. The 1992 Fund has not been formally notified of the claim by the Greek authorities and no further information has been provided by the shipowner.

At the April 2016 sessions of the IOPC Funds' governing bodies, the Executive Committee authorised the Director to settle the main contractor's claim for €12 million and to claim back from the insurer the 1992 CLC limit. In December 2016, the 1992 Fund was informed that the insurer would likely be put into voluntary liquidation as it could not comply with Greek insurance solvency regulations. The 1992 Fund filed applications for prenotated mortgages against the unencumbered buildings owned by the insurer. The insurer fought each of the applications and in June 2017, the Court issued its judgment denying the 1992 Fund the grant of prenotated mortgages over those properties. The 1992 Fund appealed the decision to the Athens Court of Appeal. In the meantime, the 1992 Fund also requested, and was granted, a provisional order prohibiting any change in the legal status of the properties pending its appeal.

A provision had already been made been made for the second clean-up contractor's claim that has been assessed by the 1992 Fund at €100 000 which includes interest and legal costs. An offer of settlement at this figure was made to the second clean-up contractor in January 2017. However, to date the claimant has not accepted the offer and court proceedings are continuing.

In the main proceedings against the insurer, a judgment was due towards the end of 2017 and is still pending.

For the purpose of the contingent liabilities, fees and other costs for 2018 have been estimated at £100 000 *(2016 Financial Statements – £100 000)*.

Nesa R3

On 19 June 2013, the 856 GT tanker *Nesa R3*, carrying 840 tonnes of bitumen from the port of Bandar Abbas in the Islamic Republic of Iran, sank off the Port Sultan Qaboos, Muscat, Sultanate of Oman, tragically claiming the life of its master.

In October 2013, the Government of Oman commenced legal action against the shipowner in the Court of Muscat, as the shipowner had refused to meet its obligation under the 1992 CLC. The insurer of the ship had also refused to consider any claims, citing the country of origin of the cargo as the reason.

In view of the considerations above, the 1992 Fund Executive Committee, at its session in October 2013, decided to authorise the Director to make payments of compensation in respect of claims arising from this incident.

In February 2016, the 1992 Fund joined the legal action by the Government of Oman against the shipowner and the insurer of the *Nesa R3*.

Thirty-two claims totalling OMR 5 925 475 (£12.5 million) have been received. These claims have been assessed at OMR 1 777 113 and BHD 8 419 (totalling £3.1 million) and as at 31 December 2017 they have been paid in full.

The 1992 Fund had joined the legal proceedings against the shipowner and insurer. In January 2018, the Court of Muscat awarded the Fund OMR 1 777 113 and BHD 8 419, which correspond to the payments made so far made. There is currently no legal proceeding against the 1992 Fund, though further claims have been submitted by the Government of Oman against the shipowner/insurer of the vessel (which have not established a limitation Fund) and have been recognised by the Court.

For the purpose of contingent liabilities, no compensation has been included. Fees and other costs are estimated at £50 000 for 2018 *(2016 Financial Statements – £50 000)* based on previous years and pending claims.

Double Joy

In July 2017, the 1992 Fund was notified of an oil pollution incident that took place on 5 August 2014 involving the tanker *Double Joy* (3 434 GT). The pollution occurred due to overflow when the *Double Joy* was loading cargo at the ATB oil terminal, Tanjung Bin, Port of Tanjung Pelepas (PTP), Johor, Malaysia.

Although the *Double Joy* incident occurred in 2014, there was no indication that claims would exceed the 1992 CLC limit until July 2017, when a claim notification took the total claimed damage over the 1992 CLC limit. It is therefore possible that the 1992 Fund will be required to pay compensation in respect of this incident.

The limitation amount applicable to the *Double Joy* in accordance with the 1992 CLC is SDR 4.51 million (US$6.3 million). The *Double Joy* is entered as a 'relevant ship' within the definition of STOPIA 2006 and therefore STOPIA 2006 applies to this case, increasing the shipowner's limit to SDR 20 million.

Although STOPIA 2006 applies to this incident it is not likely that the STOPIA 2006 limit will be reached. The 1992 Fund will be liable to pay compensation if the 1992 CLC limit is reached, albeit all payments would be later recovered from the shipowner's insurer under STOPIA 2006.

The shipowner's insurer has paid US$1 million and RM 3.8 million in compensation. A claim for a possible total of US$8 million is pending in Court.

For the purpose of contingent liabilities, fees and other costs are estimated at £40 000 for 2018.

Trident Star

On 24 August 2016 the tanker *Trident Star* (3 177 GT), spilled an unconfirmed volume of marine fuel oil in ATB oil terminal, Tanjung Bin, Port of Tanjung Pelepas (PTP), Johor, Malaysia, during loading operations. The incident appears to have resulted from the overfilling of the vessel's no. 5 port side cargo tank.

The ship is insured with the Shipowners' Mutual Protection and Indemnity Association (Luxembourg) (Shipowners' Club), which is part of the International Group of P&I Associations. The *Trident Star* was entered as a 'relevant ship' within the definition of STOPIA 2006 and therefore STOPIA 2006 applies to this case, increasing the shipowner's limit to SDR 20 million.

Claims for pollution damage arising from this incident will surpass the 1992 CLC limit applicable to the *Trident Star*. Although STOPIA 2006 applies to this incident it is not likely that the STOPIA 2006 limit will be reached. The 1992 Fund will be liable to pay compensation once the 1992 CLC limit is reached, albeit all payments will be later recovered from the shipowner's insurer under STOPIA 2006.

Claims have been received for a total of US$20 million. The liability limit applicable to the *Trident Star* is approximately US$6.3 million. The Shipowners' Club has already paid some US$2.4 million in compensation.

For the purpose of contingent liabilities, fees and other costs are estimated at £100 000 for 2018 *(2016 Financial Statements – £10 000)*.

Agia Zoni II

On 10 September 2017, the tanker *Agia Zoni II* sank at anchor in the Piraeus anchorage area, spilling approximately 700 tonnes of crude oil on the coast of Salamina Island, and subsequently around the coast of Piraeus along some 20 to 25 kilometres of coastline. The insurer (a fixed premium insurer) established a limitation fund for €5.41 million and made it clear that it did not consider itself liable for any costs incurred thereafter.

Extensive clean-up operations commenced, involving, at times, over 400 personnel. Oil removal operations from the wreck were concluded by 30 October 2017. The salvors were then instructed to remove the wreck at no cost to the Greek Government. The wreck was lifted by 30 November 2017.

Given the impact on the coastline and the importance of the incident to the Greek Government, the Director offered to establish a local Claims Submissions Office, which was set up in October 2017.

In terms of compensation payments, by the end of March 2018 the 1992 Fund had received 54 claims amounting to €39.6 million, with the bulk of the claims arising from clean-up contractors. Claims have not yet been received for the clean-up operations on Salamina Island or the mainland, and these claims are expected to be high.

Further claims are expected to be filed in all sectors, but especially in the tourism sector in the spring and summer seasons, and more claims are expected in the fisheries sector once the impact of the fishing ban on trawlers is known.

For the purpose of contingent liabilities, an estimate of €56 million in compensation and fees and other costs of £1.2 million is made for 2018.

27 Commitments

On 15 February 2016 the Secretary-General of IMO and the Director of the IOPC Funds signed an agreement whereby IMO agrees to underlet to the IOPC Funds office space on the first-floor rear wing in its headquarters building. The lease came into effect on 1 March 2016 and will expire on 25 October 2032, with rent fixed at £258 000 per annum until the break point of 31 October 2024.

The United Kingdom Government meets 80% of the costs related to the rental of the Secretariat's office premises in the IMO headquarters building.

Future minimum lease payments payable by the 1992 Fund for the office in the IMO headquarters building:

	Secretariat office/ storage space (100%) £
Not later than one year	258 000
Later than one year and not later than five years	1 032 000
Later than five years to 31 October 2024	473 000

28 Related parties and key management personnel

Key management personnel

	2017	*2016*
Number of individuals	5	*5*
	£	*£*
Basic salary and post adjustment	739 381	*720 206*
Entitlements	56 345	*20 847*
Provident Fund and health insurance	179 734	*165 152*
Assignment and Repatriation grant	-	-
Shipment costs	-	-
Total remuneration	**975 460**	***906 205***
Outstanding loans	770	*792*

The Director is assisted by a Management Team in the day-to-day running of the Secretariat. Key management personnel are the members of the Management Team comprising of Director, Deputy Director/Head of the Finance and Administration Department, Head of the External Relations and Conference Department, Head of the Claims Department, and the Legal Counsel.

In 2017 the aggregate remuneration paid to key management personnel includes: net salaries, post-adjustment, entitlements such as representation allowance and other allowances and the organisation's contribution to the Provident Fund and health insurance.

Key management personnel are also qualified for post-employment benefits at the same level as other employees. These benefits have been estimated by the management.

Related parties

The Director is *ex officio* Director of the Supplementary Fund. The Supplementary Fund is a related party to the 1992 Fund as they are both administered by the 1992 Fund Secretariat, for which the Supplementary Fund pays the 1992 Fund a management fee of £34 000 (*2016 Financial*

Statements – £34 000). The 1992 Fund received £20 072 of prepaid contributions on behalf of the Supplementary Fund, which were subsequently transferred to the Supplementary Fund.

29 Events after reporting date

The 1992 Fund's reporting date is 31 December 2017.

On the date of signing of these Financial Statements, there have been no other material events, favourable or unfavourable, incurred between the balance sheet date and the date when the Financial Statements were authorised for issue that would have impacted these statements.

The date of authorisation for issue is the date of certification by the External Auditor.