The London P&I Club

The London Steam-Ship Owners' Mutual Insurance Association Limited

Annual Report & Financial Statements
for the year ended 20 February 2020

Registration number: 10341

Contents

Board of Directors & Members' Committee

Board of Directors

THE FOLLOWING PERSONS SERVED ON THE BOARD DURING THE YEAR, AND AT THE DATE ON WHICH THESE FINANCIAL STATEMENTS WERE APPROVED (UNLESS OTHERWISE STATED):

Chairman
John M. Lyras
Lyras Maritime Ltd.,
London

Vice-Chairmen
Robert A. Ho
Fairmont Management Ltd.,
Hong Kong

Vassilis J. Laliotis
J. Laliotis Maritime Group,
Athens

John L. Harbor*
Surrey

John L. Lawrence
London

Amnon Lion†
Eastern Pacific Shipping Pte. Ltd.,
Singapore

John J. Raggio
Sealift LLC,
New York

Sophocles N. Zoullas
Zenith Shipping LLC,
New York

Managers
Ian E. Gooch
A. Bilbrough & Co. Ltd.,
London

Anthony G. Jones
A. Bilbrough & Co. Ltd.,
London

Iain Paul
A. Bilbrough & Co. Ltd.,
London

Members' Committee

Chairman
John M. Lyras
Lyras Maritime Ltd.,
London

Vice-Chairmen
Robert A. Ho
Fairmont Management Ltd.,
Hong Kong

Vassilis J. Laliotis
J. Laliotis Maritime Group,
Athens

Ali Aktoprak
Canakkale Liman Isletmesi San.
Ve Tic. A.S.,
Canakkale

Rozainah Bt Awang
MISC Berhad,
Kuala Lumpur
Resigned 8 April 2019

Peter J. Cowling
Wallem Ltd.,
London

John Dragnis
Goldenport Shipmanagement Ltd.,
Athens

Stamos J. Fafalios‡
Fafalios Ltd.,
London

John L. Harbor
Surrey

Wenguang Ji
SITC Shipping Group,
Shanghai

John L. Lawrence
London

Michael C. Lemos
C. M. Lemos & Co. Ltd.,
London

Amnon Lion
Eastern Pacific Shipping Pte. Ltd.,
Singapore

James L. Marshall
Berge Bulk,
Singapore

David M. Ofer
Zodiac Maritime Agencies Ltd.,
London
Resigned 20 February 2020

Zahid Osman
MISC Berhad,
Kuala Lumpur
Appointed 16 October 2019

Ismini Panagiotidi
Pavimar S.A.,
Athens
Appointed 1 May 2019

Vassilis Papageorgiou
Tsakos Group,
Athens

John J. Raggio
Sealift LLC,
New York

Nikolaos Savvas
Cosmoship Management S.A.,
Piraeus

Josef Sedlmeyr
Northern Shipping Holding,
Munich
Appointed 16 October 2019

Giangiacomo Serena
SAM International Andromeda
Shipping, Monaco

Zhongyi (John) Su
Erasmus Shipinvest Group Ltd.,
Athens

Bjorn A. Tietgens
Norddeutsche Reederei
H. Schuldt GmbH & Co. Kg,
Hamburg
Resigned 23 May 2019

Bendix Todsen
Hamburg

Nikolaos Veniamis
Golden Union Shipping Co. S.A.,
Piraeus

Gerasimos Ventouris
Capital Ship Management,
Piraeus

Sophocles N. Zoullas
Zenith Shipping LLC,
New York

* Risk Committee Chairman
† Audit Committee Chairman
‡ War Risks Committee Chairman

Registered address
50 Leman Street
London, E1 8HQ

Chairman's Report

Dear Members,

The Association's operating result for the 2019/20 financial year was a surplus of US$5.0m which lifted our free reserves to US$173.9m. There was, however, an increase in the cost of claims, both within our retention and brought by other Clubs on the pooling system. This continued a pattern that emerged in 2018 and there now appears to be clear evidence that the cost of P&I claims is trending upwards after several relatively benign years.

At the same time, there was a continuation of the long-term downward pressure on pricing in the P&I sector. A combination of the further erosion of premium income on the one hand and the deteriorating claims environment on the other had a negative effect on our underwriting result. This was a driver behind the Board's decision last autumn to set a general increase in rates for the 2020/21 renewal. This was the first such increase for three years and was one of several renewal measures adopted. They included reviewing the rating of individual Members whose particular records and risk exposures required a further uplift to their premiums. The Board determined that such action was necessary so the Association can deliver on its goal to provide top class and long-term support for all our Members from a robust financial base. There is further information on this in the Strategic Report section.

The performance of the Association's invested assets was another important element in our result, with the portfolio achieving a healthy return of 9.1%. This was underpinned by a strong performance from the core fixed income holdings as well the equities component within the portfolio which, as noted elsewhere, was the subject of some de-risking during the year in line with the Association's risk appetite. It is right that I should recognise here the vigilant work of our quota share reinsurer in Bermuda and the effectiveness of its control environment.

In addition to the attention given to issues including finance, governance and strategy, the Board and Members' Committee considered several evolving challenges and risks during the year. There were, for example, the attacks on merchant shipping operating in the Gulf of Oman in May and June. The ships involved were not entered with the Association, but developments such as these are relevant in the context of our growing War Risks business and serve to underline the potential benefit to our Members of our comprehensive cover.

An example of a developing challenge involves the increasingly onerous and complex sanctions environment in which the Association and our Members operate. The expectations of governments and other bodies of the part to be played by insurers in curtailing sanctions evasion are rising – and the time and resources being committed by the Association in this area have increased accordingly. The related work includes guidance to Members who seek to achieve full compliance with sanctions legislation and assistance in the interpretation or clarification of sometimes ambiguous legislation. This is an area in which the International Group's Sanctions sub-committee continues to play an active and important role, via its discussions with governments and other relevant agencies, to try to achieve greater clarity for Shipowners over current and prospective compliance requirements.

As noted earlier, the cost of claims has been increasing, and is an issue which our Members' Committee examines closely. Accordingly, it takes a keen interest in the periodic reviews of the International Group's Large Casualty working group which identifies the factors involved in the escalation of costs in major casualty cases. A significant driver of cost is the extent to which casualty response efforts are subject to government or authority intervention. One of the working group's key recommendations, therefore, highlights the value of close co-operation between Clubs and such parties to enable critical decisions to be taken at the earliest opportunity. With this in mind, the working group's established outreach programme continues to make progress and help to engender effective liaison with several state maritime authorities. It continues to build on this initiative.

During the year, we were pleased to welcome Zahid Osman and Josef Sedlmeyr to our Members' Committee. We also said farewell to Rozainah Awang and Bjorn Tietgens who have our thanks and best wishes for the future.

Finally, towards the end of the year under review, we started to receive reports on the effects of the Coronavirus outbreak (COVID-19). It soon became apparent that the characteristics and rate of spread of the virus present a serious threat across all walks of life – and the danger was not only of a health crisis, but an economic one too. Whilst there remains significant uncertainty as to its impact, both for the Association and the world economy, steps have already been taken to understand and, where relevant, quantify, all potential financial and operational impacts for the Association. One key operational impact is that our Management's staff across all three offices are working remotely at the time of writing and, following the transition to this new mode of working, I'm confident that our Members continue to receive the same high quality service and support which they rely upon and have become accustomed to. Further information on the risks and uncertainties the Association faces in regard to COVID-19 are contained in the Strategic Report and the Notes to the Financial Statements which follow. In view of these profound challenges, I would like to conclude this Report by sending best wishes to Members and other friends of the Association in navigating through this difficult time.

John M. Lyras
Chairman
7 May 2020

Strategic Report

PRINCIPAL ACTIVITIES

The principal activity of the Group is the provision of Protecting & Indemnity (P&I), Freight, Demurrage & Defence (FD&D) and War Risks insurance for Members on a mutual basis. The Association also provides P&I and FD&D insurance cover on a fixed premium basis for owner and charterer assureds.

FINANCIAL OVERVIEW

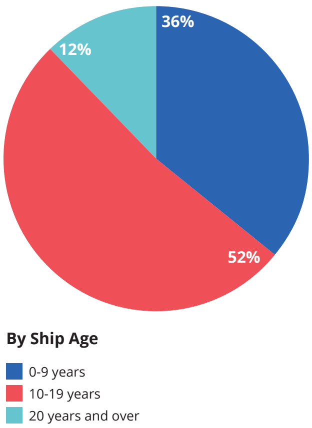
The after-tax operating result for the financial year under review was a surplus of US$5.0m. This positive result lifted free reserves at the year-end date to US$173.9m.

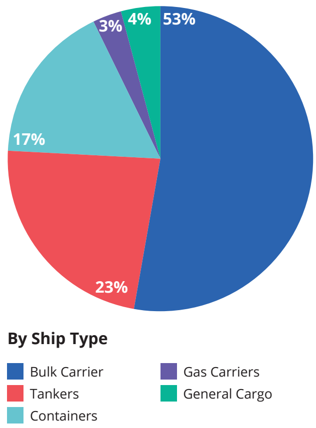
Gross earned premium income for the year was US$116.2m and earned premium income after reinsurance costs was US$97.7m; increases of US$12.5m and US$13.7m respectively on the prior year comparatives.

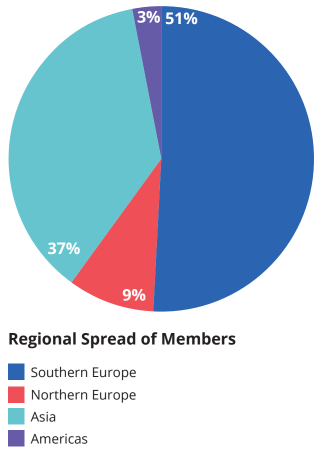
Mutual and fixed premium tonnage on risk in 2019/20 was higher than in recent years, and with that a concomitant increase in claims costs over the average figure recorded in recent years was anticipated. Even after making an appropriate allowance for changes in the volume of business on risk, however, there is no question that the 2019/20 financial year was an expensive claims year for the Association. A segmentation of operating performance by product line confirms that claims for the Association's fixed premium P&I products and the FD&D Class were either in line with or lower than forecast. All these product lines made important positive contributions to the 2019/20 bottom line operating result. The higher-than-forecast claims outturn was wholly attributable to the Association's core mutual P&I product; both claims incurred by the Association's own Membership and contributions to other Clubs' Pool claims. The net burning cost on a per gross tonnage (gt) basis for reported 2019/20 policy year mutual P&I claims at expiry – a measure which is not distorted by changes in the volume of business on risk – was the highest recorded in the last five years and 25% higher than the average of this same measure for the four preceding years. A feature of all Clubs' reporting for the 2019/20 year is likely to be the high cost of Pool claims in the financial year. In addition to the 2019/20 Pool year already being expensive at expiry, the 2018/19 Pool year suffered from unusually marked deterioration in the 12-month period post expiry, necessitating an upward adjustment in the Association's projected ultimate exposure to these claims. The strain this claims experience placed on technical performance was further compounded by average mutual P&I premiums per gt in 2019/20 being lower than in any of the preceding four years.

As explained in more detail later in this Report, the year under review was one in which all asset classes represented in the Association's portfolio of invested assets posted strong returns. The result was an overall investment return of 9.1% on the Association's invested assets and cash balances in the year. Somewhat fortuitously this return, together with a revaluation gain on the Association's UK property asset recognised in the year, fully insulated the Association's balance sheet from being weakened by the 137% combined ratio, and instead contributed to a US$5.0m strengthening in the free reserve over the course of the financial year.

OWNED TONNAGE PROFILE 2020/21







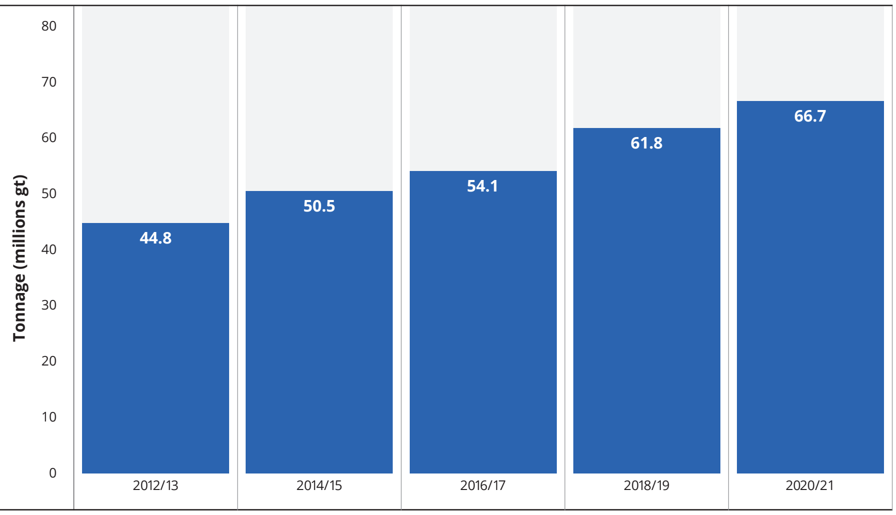
MEMBERSHIP & UNDERWRITING

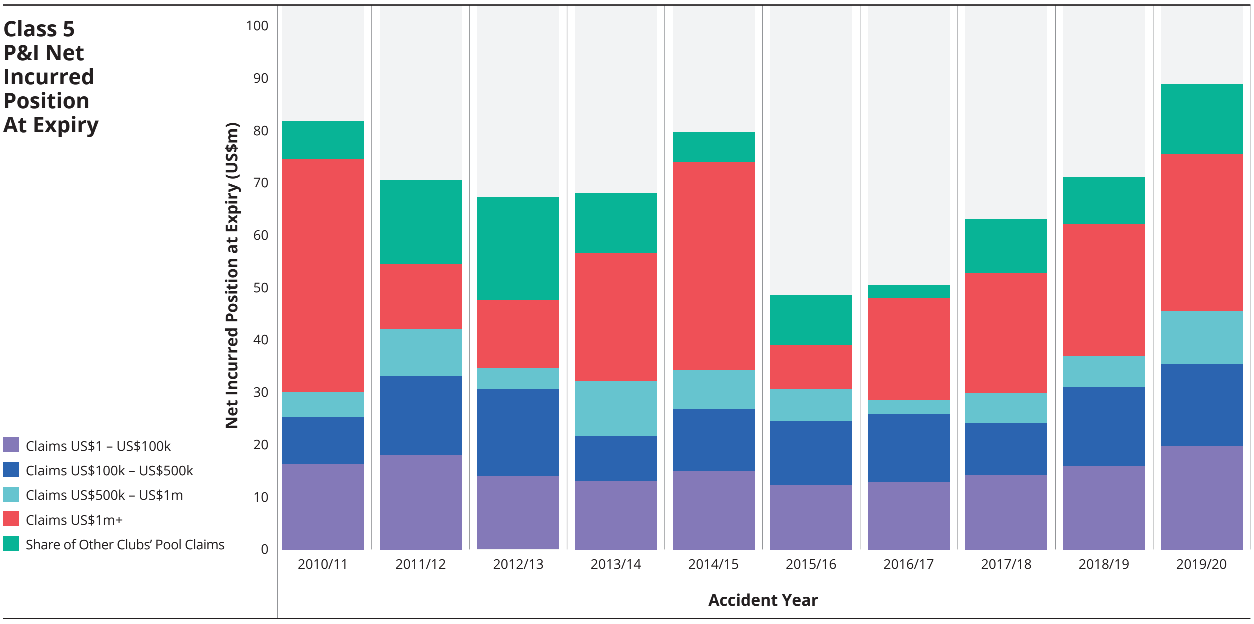
During the year under review, 6.5m gt of mutual business attached for cover with the Association. This was made up of entries drawn from new as well as existing Members based in countries including Bulgaria, China, Egypt, Greece, Ireland, Portugal, UK and the US. Over the same period there were routine terminations comprising 4.1m gt. The set of pie charts above depict the composition of the Association's mutual P&I book of business.

There was also growth in the business covered by the Association's fixed premium products for charterers and the Owners of smaller ships. The impact of the increased entries across these lines, and the mutual book of business, is illustrated in the bar chart below. The growth in the charterers product included assureds based in markets where the Association has an established presence such as China, Greece, Hong Kong, Monaco, Singapore, Turkey and Ukraine, as well as markets where its profile has grown more recently, including Denmark and South Korea. The Owners' fixed premium facility has also grown, with cover being provided to additional assureds, in a range of countries. Progress in this sector appears in particular to be supported by the Association's reputation for and delivery of high-quality service.

As noted last year and elsewhere in this report, premium levels in the P&I market have been under considerable pressure for some time. Signs that the claims environment was becoming less benign meant that measures were required to adjust rates, to relieve the increasing strain on recent underwriting results. For the Association (and many other Clubs) this resulted in the setting of a general increase last autumn for 2020/21 – the first time in three years that such an increase has been applied. There was also to be a review of deductibles and, where appropriate, other terms of cover. Additionally, further attention would be given to the rating of those Members whose records and risk exposure were such as to require an additional uplift in order to contribute an equitable level of Call income to the operation of the Association. Towards the end of the year these important steps inevitably led to detailed engagement with Members and brokers over rating, records and risk exposure – and the increases being applied to premiums. In the vast majority of cases, it proved possible to agree terms, and the outcome was to stop the downward trajectory of pricing. This in turn supports a stronger focus on achieving a closer alignment between the risk profile and premium of Members than has been seen over the last few years.

DEVELOPMENT OF COMBINED ENTERED TONNAGE





CLASS 5 – PROTECTING & INDEMNITY CLAIMS

The above chart shows the net incurred P&I claims position as at expiry for each of the last ten policy years broken down into different severity bands.

The net incurred position at expiry of the 2019/20 policy year was US$88.7m, up from US$71.1m at expiry of the previous policy year.

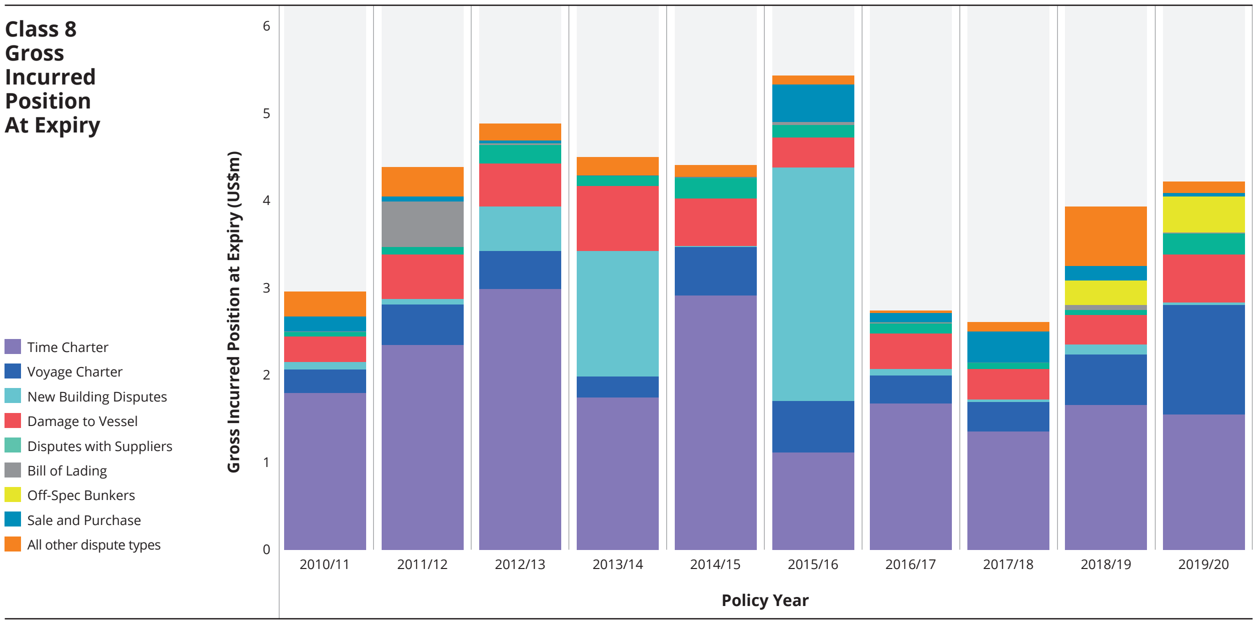
In the lowest severity band (claims with a value of less than US$100,000), the aggregate cost of these claims increased by US$3.7m over the 2018/19 comparator. The rise is attributable to increased costs of both personnel and cargo claims.

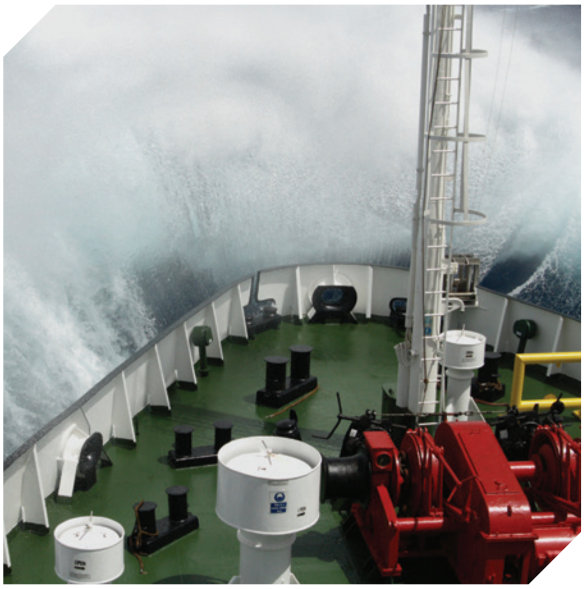
There is a modest rise in the aggregate value of claims in the band from US$100,000 to US$500,000 but a more significant increase in the claims which fall in the band from US$500,000 to US$1m. In the latter band, the net incurred position is US$4.9m higher than last year. A broader range of claim types drives this increase. Although there are some unusual personnel claims, there is also a mix of cargo claims across a range of ship types but a higher number of medium-sized collision claims than in the prior year.

In the high severity band (claims in excess of US$1m) there is at least the potential for post-expiry developments to offset significantly the year-on-year increase of just under US$5m. The most expensive claim involves a collision in a jurisdiction which does not have a great deal of experience in such matters. There is a scenario in which the apportionment of blame could move considerably in favour of the entered ship. Finally, the increased cost of the contribution to other Clubs' Pool Claims is attributable largely to one very high cost wreck removal case in the USA.

THE NET INCURRED POSITION AT EXPIRY OF THE 2019/20 POLICY YEAR WAS US$88.7M, UP FROM US$71.1M AT EXPIRY OF THE PREVIOUS POLICY YEAR.

Class 8 Gross Incurred Position At Expiry





CLASS 8 – FREIGHT, DEMURRAGE & DEFENCE CLAIMS

The above chart shows the gross incurred position at expiry for the last ten policy years, split by dispute type.

There has been a recent change to how various types of FD&D claim are presented – a new category of 'Off-Spec Bunkers' has been created. Claims which would have previously fallen within other bands, most often Time Charter, are now recorded as Off-Spec Bunkers.

Although the at expiry FD&D position was US$4.2m, up slightly on the position (US$3.9m) at expiry of the 2018/19 policy year, the increase was not actually the result of the legal spend allocated to Off-Spec Bunkers cases. The file count and cost of such cases began in 2018, with the advent of the industry event referred to as "the Houston problem". When added together the spend on Time Charter and Off-Spec Bunkers in 2018/19 is almost exactly the same as the total for the two claim types combined in 2019/20.

There may be an increase in disputes connected to the new IMO 2020 bunker regulations. A few files were opened around the 1 January 2020 implementation date but the reduction in ship movements from January as a result of COVID-19 issues may well have suppressed the file count.

However, IMO 2020 issues have had an impact in one other band of claims. There was an increase in the projected cost of Disputes with Suppliers, up from US$60,000 in 2018/19 to US$237,000 at expiry. That claim type has been influenced by a series of files involving disputes arising from the supply/ installation of exhaust gas scrubbers.

But the challenges to international shipping of developments, sometimes unexpected, in the various sanctions regimes remain clear from the FD&D review. The year-on-year increase of around US$300,000 in FD&D projected costs at expiry was largely attributable to the commercial complications arising from the US imposition of sanctions on Venezuela.

INVESTMENTS

Key to the strong performance of all investment categories through 2019 and into early 2020 was the unexpected decision by the US Federal Reserve to change course in terms of its monetary policy. The Fed had convinced investors in 2018 that further interest rate hikes and an unwinding of the inventory of Treasuries and mortgage securities built up on its balance sheet were on a pre-set path following the robust performance of the US economy in 2018. It changed tack, however, in 2019, firstly indicating that monetary policy was on hold, then ultimately reversing its stance and cutting rates.

Behind the Fed's change of course were a number of factors, not least a slowing economy, lower inflation pressures, trade concerns, profit warnings and the sell-off in markets at the end of 2018 raising the cost of credit. With the threat of recession on the horizon the Fed moved rapidly, initially in its market announcements and, as the year progressed, with a series of cuts in the Federal Funds rate. After an apparently robust 3.1% rate of growth in the first quarter of 2019, which was artificially inflated by inventory building and one-off trade effects, the US economy slowed. Throughout the year, the economic backdrop remained weak with indicators such as business investment, car sales and housing as well as industrial commodity prices all indicating a looming potential recession.

The trade dispute between the US and China escalated during 2019 in terms of threats and tariffs, further threatening the economic outlook. This dispute would only start to be resolved in the fourth quarter as the US and China began to agree to a "Phase 1" Agreement and delays to further tariff increases. Ultimately, an agreement was signed in January 2020 which significantly eased the immediate concerns over a potentially damaging level of trade friction. As a result of the economic uncertainty, interest rates, particularly at the longer end, fell sharply with the US 10-year Treasury yield dropping below the two-year yield. For investors, the Fed's announcements and actions in reducing the key Federal Funds rate by a total of 75 basis points from 2.25% to 1.5% between August and the end of October was a signal that the Fed would, in effect, do whatever it could to sustain the expansion. This also reinforced sentiment towards riskier assets and a "hunt for yield" among lower quality credits and equities.

At the same time, very low rates of return (or negative in some parts of the world) on historically safe savings, such as deposits and government bonds, also propelled the drive towards yield and return-seeking among investors. As a result, and unusually, not only were the yields on government bonds falling as investors expected lower interest rates as a result of a slowing economy and muted inflation, but credit spreads narrowed and equity markets rose as investors also looked ahead to a further extension of the economic cycle. This led to a very unusual outcome whereby all the major asset classes posted significant and strong returns for the Association for the financial year under review.

As the first signs of the COVID-19 outbreak were beginning to emerge in China towards the end of the Association's year, the extent and severity of the pandemic had not yet significantly impacted on markets, with the S&P 500 reaching a new high on 19 February 2020. Similarly, corporate bond spreads remained tight until that point, and government bond yields, while low reflecting the muted economic outlook, had not yet responded to the rapid change in the global economic picture that was about to become apparent as the epidemic began to spread more widely.

Management of the Association's risk profile in accordance with the Board's risk appetite led to the proportion invested in equities being scaled back during 2019, from just under 20% at the start of the year to about 16.5% of the Association's invested assets and cash. There was also a gradual improvement in average credit quality within the fixed income allocation as the year unfolded. The investment portfolio is underpinned by its fixed income investments which range from government bonds through to a modest high yield exposure. As a result of the combination of falling government bond yields and contracting credit spreads, the Association's fixed income portfolio generated a return of just over 10% during the year. Equity portfolios also performed strongly, generating a return of almost 19%. The overall return on invested assets and cash was 9.1%.

The Association also recognised an unrealised gain of US$8.9m on the revaluation of its UK property asset net of the foreign exchange translation movement in the year.

THE ASSOCIATION HAS ALSO COMMENCED USING NEW MORE SOPHISTICATED AIS TRACKING SOFTWARE TO HELP IDENTIFY ENTERED SHIPS POTENTIALLY UNDERTAKING TRADE WITH SANCTIONED JURISDICTIONS.

REINSURANCE

The structure of the Group's collective claims-sharing and reinsurance arrangements for the 2020/21 policy year is broadly in line with that in place for 2019/20. Clubs continue to bear the first US$10m of each and every claim. From US$10m to US$100m the Pool then provides for a sharing of claims costs between its 13 member Clubs, subject to the claiming Club bearing a further retention of 7.5% in the upper layer of the Pool from US$50m to US$100m. The General Excess of Loss (GXL) programme attaches at US$100m and, one year on from the introduction of a number of structural changes to layering and Pool participation, further changes for 2020/21 are modest. Layering is unchanged: the first layer providing cover from US$100m to US$750m; the second layer from US$750m to US$1.5bn; and the third layer from US$1.5bn to US$2.1bn. All layers have been placed for a period of two years. The Collective Overspill layer provides a further US$1.0bn of cover in excess of the GXL. The two expiring 5% private placements covering claims from US$100m to US$1bn have been replaced by two 10% private placements aligned in terms of per occurrence attachment point and limit with layer one. There are now three such multi-year private placements, each providing the same coverage within layer one. Hydra's participation in layer one is a retention of the first US$100m of losses within the 70% main market placement. Hydra's ownership structure and reinsurance activities are set out at Note 2.1.2 to the Financial Statements. The Group has again collectively arranged US$200m of MLC cover excess of a US$10m retention and US$500m of excess War P&I cover with a minimum attachment point of the cover of US$500m (up from US$100m in 2019/20) where the ship is not protected by Primary War P&I up to proper hull value.

The Association has renewed its reinsurance of the primary US$10m layer across all product lines on the basis of a whole account cover, incorporating an annual aggregate deductible (AAD) aligned with the Board's appetite for risk within this exposure bracket. This product is augmented with product line specific covers which mitigate against the risk of a materially adverse underwriting result for any of the Association's fixed premium product lines.

The Association continues to offer limits up to US$1.0bn to its charterer and fixed premium P&I assureds, with all risks in excess of US$10m being fully reinsured. This excess programme also provides the Association with the flexibility to offer cover for a wide range of non-poolable risks with whatever limits are required up to US$1.0bn.

REGULATORY

In our 2019 report we noted increased attention from the United States Government, through the Office of Foreign Assets Control (OFAC), on sanctions. This focus has continued in the last 12 months with the publication of a framework for OFAC Compliance Commitments which sets out the essential components of a Sanctions Compliance Programme. In response, the Managers constituted an internal Sanctions Compliance Committee, with representatives from the main operational departments, to ensure a coordinated approach across the Association and strengthened governance arrangements in this important area of compliance. The Association has also commenced using new more sophisticated AIS tracking software to help identify entered ships potentially undertaking trade with sanctioned jurisdictions.

In the UK, the regulators continue their focus on insurers' strategic response to continuing soft underwriting markets and other macroeconomic events. There is also focus on certain non-financial risks including cyber underwriting and operational resilience risks. In response, the Association has continued to strengthen its own operational resilience and this has included being awarded Cyber Essentials Plus accreditation of our IT systems by the UK's National Cyber Security Centre. At the time of writing management and staff across our offices are currently working from home due to COVID-19. The security and resilience of our IT systems and the wellbeing of our people is essential in order to maintain operational effectiveness and service levels to our Members.

Other material non-financial regulatory themes which the Association is alert to, and will be actively working on in 2020, are managing the financial risks arising from climate change and evaluating the culture within the Association to ensure it is aligned with regulatory expectations.

SECTION 172(1) STATEMENT

The following section describes how the Directors have had regard to the matters set out in Section 172(1)(a)-(f) of the Companies Act when fulfilling their duties:

Stakeholder Engagement

The Association is a true mutual organisation, directed by and run for the benefit of its Members. The interests of Members are therefore paramount to the decisions made. Our stakeholders include our Members and Policyholders, the Managers and their employees, our regulators, insurance partners and Shipowners across the Globe. By building strong relationships with our stakeholders, the Board aims to deliver the Association's strategy in line with our long-held values.

Our Members' and Policyholders' interests are served by the Members' Committee which consists of 25 Members, including the non-executive members of the Board. The Board consults with the Members' Committee prior to taking significant decisions affecting the Association's Members and Policyholders, and also reports to it on these significant decisions and all other decisions of the Board which are deemed to have a material effect on the Association, or the Membership as a whole. Controls are in place to ensure both the Board and Members' Committee act fairly between Members of the Association.

In addition, the Directors and Managers regularly engage with Shipowners across the globe, and in 2019 they have hosted business functions in Athens, Vietnam, Korea, Hamburg and Istanbul. Seminars on a range of topics relevant to our Members have been held in our London, Hong Kong and Piraeus Offices and a number of Directors and Managers have attended these and other significant industry events in Europe and the Far East, all of which provide an opportunity to engage with our stakeholders and gain an understanding on the issues impacting them and the Association.

Members of the Board also continue to meet with regulators and government departments in the markets in which the Association operates and with shipping and P&I representative bodies to discuss matters which could impact the interests of the Association or its Members now and in the future.

Board members meet employees during the course of attending Association events and Board meetings, providing an opportunity for them to raise questions on any issues arising.

BY BUILDING STRONG RELATIONSHIPS WITH OUR STAKEHOLDERS, THE BOARD AIMS TO DELIVER THE ASSOCIATION'S STRATEGY IN LINE WITH OUR LONG-HELD VALUES.

Decision-making

The Board operates a programme of standing agenda items appropriate to the Association's operating and reporting cycles. These include items for formal approval such as the Annual Report and Accounts, the Budget and Business Plan, Board and sub-committee Terms of Reference, the Management Responsibilities Map and material Association policies which ensure high standards of business conduct. The Board sets the risk appetite for the Association, monitors risk indicators and takes any decisions required to ensure the Association continues to operate within its risk appetite. The Board also receives updates from its sub-committees, from business functions on performance and operations, and updates on progress against strategic programmes.

Below are two key examples of how the Directors have had regard to the matters set out in Section 172(1)(a)-(f) when exercising their duties and the effects on certain decisions taken by them.

Brexit

Throughout 2019, the Board continued to monitor the Brexit situation closely to understand the long-term effects of Brexit on the Association's business strategy. Whilst clearly desirable to take steps to ensure the ability to continue servicing existing EU policies and enable future underwriting activity in the region, the timing remained uncertain, and any decision had to consider the substantial costs to the Membership of establishing and operating an EU subsidiary unless, and until, it became clear that it would be required.

In July, political developments were such that the Board agreed Management should accelerate its plans to secure an underwriting licence in Cyprus and attend to the other arrangements required to complete the establishment of its EU subsidiary in order to secure the long term ability of the Association to market its products to the Owners and charterers of EU risk ships. The Board also gave detailed attention to the servicing of existing EU policies by the Association post-Brexit, and took the decision to apply to enter the PRA and FCA "savings provision" regime which would permit the completion of a Part VII portfolio transfer if necessary, following the UK's loss of passporting rights under the single market. The Board anticipates receiving an underwriting licence and having a fully operational office in Cyprus before the end of the current transitional period on 31 December 2020.

THROUGHOUT 2019, THE BOARD CONTINUED TO MONITOR THE BREXIT SITUATION CLOSELY TO UNDERSTAND THE LONG-TERM EFFECTS OF BREXIT ON THE ASSOCIATION'S BUSINESS STRATEGY.

Pricing

Inappropriate pricing of new and renewal business became a priority risk in 2019 in view of underwriting losses experienced in 2018/19 and prior years, and the ongoing high levels of claims being experienced. The Board set up a Strategy Working Group (SWG) to ensure that it fully understood the risks, to review the effectiveness of existing controls and to identify new methodologies for insurance risk pricing. The SWG is chaired by John Harbor, the Senior Independent Director, supported by John Lawrence, Independent Non-executive Director. The SWG determined the need to make adjustments to the rates paid by different segments of the Membership. It also put forward to the Board proposed rate increases which it was acknowledged may lead to the withdrawal of business entered by consistently or frequently loss-producing fleets. The Board supported the proposed approach for these fleets together with a general rate increase of 7.5% across the entire Membership to reverse the downward trend in underwriting income and improve the Association's unacceptably high combined ratio.

Looking forward, the Board also accepted proposals from the SWG to investigate the potential use of behavioural analytics and artificial intelligence to provide additional data and insights for use in its underwriting and loss prevention work. It also took the decision to increase its effectiveness in managing pricing risks by the appointment of an independent consultant to the Board with particular insurance underwriting experience and expertise.

WORK IS ALREADY WELL ADVANCED ON A PROJECT TO DOCUMENT AND STRESS-TEST ALL FINANCIAL RISKS WHICH THE ASSOCIATION MIGHT BE EXPOSED TO BY COVID-19.

INTERNATIONAL GROUP

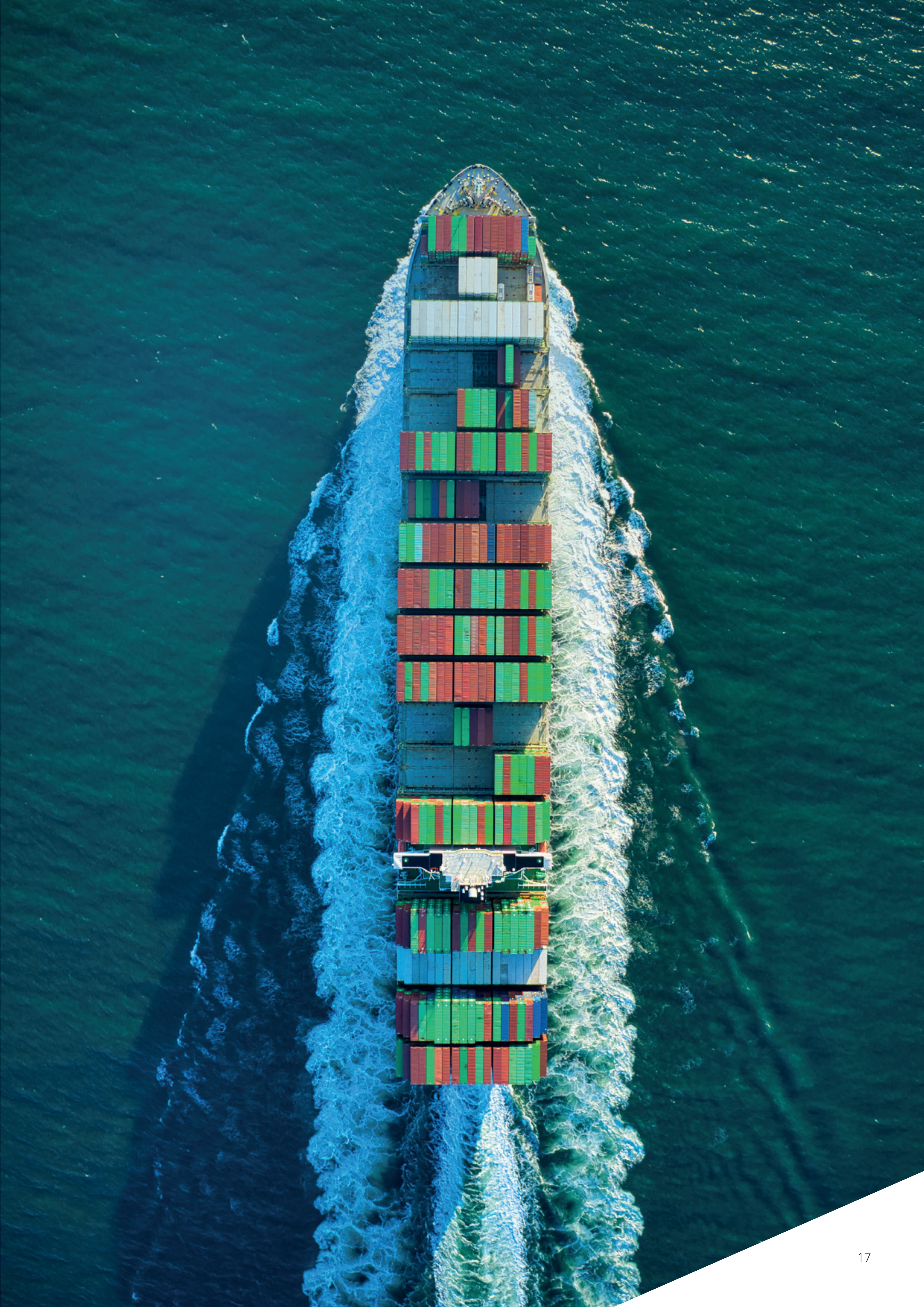
The International Group of P&I Clubs monitors the operation and reinsurance of the claims pooling arrangements, making changes when necessary so that they can continue providing the Association and the other participating Clubs with efficient high-level reinsurance protection. It also acts as a vehicle through which the Pool can be protected from potentially damaging external and even internal effects. As highlighted in the Chairman's Report, it also enables the collective addressing of other issues which are of importance to the industry as a whole. Hence the Group remains of great importance to the Association, which contributed actively to its affairs during the year under review, with members of management participating in a range of its sub-committees and working groups.

Some of the subjects recently addressed by the Group have already been referred to by the Chairman, and others are detailed in its own Annual Review which can be found on the Group's website: www.igpandi.org.

PRINCIPAL RISKS & UNCERTAINTIES

A description of the principal financial risks and uncertainties the Association faces on a recurring basis is set out at Note 3 to the Financial Statements.

As mentioned by the Chairman in his Report, there remains significant uncertainty over the impact of COVID-19 on the Association. However the Board recognises it as a risk and an uncertainty unlike anything the Association has faced in recent times. At the time of writing, the only financial risk to have materialised is a reduction in the valuation of the Association's invested assets equal to approximately one third of the full-year investment return generated by these same assets in the financial year just ended. Nevertheless, work is already well advanced on a project to document and stress-test all financial risks which the Association might be exposed to by COVID-19. These are for the most part risks to which the Association has long been exposed and are discussed in Note 20 to the Financial Statements on Post Balance Sheet Events, but where there is now the potential for a change in the likelihood of them having a financial impact and/or the estimated severity of financial impact at various levels of confidence.



Directors' Report

Company Registration: 10341

PRINCIPAL ACTIVITIES

The principal activity of the Association is the provision of Protecting & Indemnity (P&I), Freight, Demurrage & Defence (FD&D) and War Risks insurance for Members on a mutual basis. The Association also provides P&I and FD&D insurance cover on a fixed premium basis for owner and charterer assureds. The Chairman's report on pages 6 and 7 and the Strategic Report on pages 8 to 16 report on these activities and the financial results of the Association for the year together with likely future developments.

DIRECTORS

The members of the Board are Directors of the Association for the purposes of the Companies Act. The present members of the Board are listed on page 4.

The following Board members will retire by rotation and, being eligible, offer themselves for re-election:

John M. Lyras John L. Lawrence Amnon Lion

As permitted by the Companies Act 2006, the Association has purchased Insurance cover for members of the Board against liabilities in relation to the Association.

MEMBERS' COMMITTEE

The following Members' Committee members will retire by rotation and, being eligible, offer themselves for re-election:

Robert A. Ho Zhongyi (John) Su Peter J. Cowling Sophocles N. Zoullas John L. Harbor Nikolaos Savvas

FINANCIAL INSTRUMENTS

Information on the use of financial instruments by the Association and its management of financial risk is addressed in Note 3 to the financial statements. The Association's exposure to cash flow risk, credit risk, liquidity risk and market risk is addressed in Note 3 to the financial statements.

FUTURE DEVELOPMENTS

Likely future developments of the Association are discussed in the Strategic Report.

STATEMENT OF ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS IN A BUSINESS RELATIONSHIP WITH THE ASSOCIATION

Information on the Association's engagement with suppliers, customers and those in a business relationship with the Association are discussed in the Strategic Report.

BRANCHES

The Association is headquartered in London and has branch offices in Greece and Hong Kong. These branch offices are segments of the Association and are not separately incorporated legal entities.

POST BALANCE SHEET EVENTS

Significant events occurring after the year-end that might affect the Association since the year-end are discussed in the Strategic Report and in Note 20 to the financial statements.

DISCLOSURE TO AUDITORS

Each of the persons who are Board members at the time when this report is approved has confirmed that:

a) in so far as each Board member is aware, there is no relevant audit information of which the Association's auditors are unaware; and

b) each Board member has taken all the steps that ought to have been taken as a Board member in order to be aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

John L. Harbor
Director
7 May 2020

Notice of Meeting

Notice of the Annual General Meeting (AGM) of the Association, and details of the business to be conducted at the AGM, would ordinarily appear here within the Annual Report & Financial Statements. At its Meeting in April 2020, the Board deliberated the potential impact of COVID-19 on the arrangements for the Association's AGM scheduled to be held in Singapore in October 2020. The decision was taken not to proceed with the planned AGM in Singapore, with alternative arrangements to be notified to Members by Circular nearer to the October Meeting date.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report of the Board and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing these Financial Statements, the Directors are required to:

1. Select suitable accounting policies and then apply them consistently;

2. Make judgements and estimates that are reasonable and prudent;

3. Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business;

4. State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Association's website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of the London Steam-Ship Owners' Mutual Insurance Association Limited

Opinion

We have audited the financial statements of The London Steam-Ship Owners' Mutual Insurance Association Limited (the 'Association') and its subsidiaries (the 'Group') for the year ended 20 February 2020 which comprise the Consolidated Statement of Comprehensive Income by Class, Consolidated Statement of Financial Position by Class, Consolidated Statement of Cash Flows, Statement of Financial Position – Holding Company only and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 20 February 2020 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Key audit matters (see chart opposite)

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We consider materiality to be the magnitude by which misstatements, including omissions, could change or influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements. Importantly, we also take into account the nature of identified misstatements and the particular circumstances of their occurrence when evaluating their effect on the financial statements as a whole, and so misstatements below these levels will not necessarily be evaluated as immaterial.

We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgement, we determined materiality for the consolidated financial statements as a whole to be US$4,100,000 (2019: US$5,600,000). The principal determinant in this assessment was the Association's Net Assets, which we consider to be the most relevant benchmark, as this determines the availability of reserves to provide distributions or need to make supplementary calls to cover shortfalls in reserves, which are key performance measures of the Members. Our materiality represents 2.4% (2019: 3.3%) of this number. The Association's (parent company only) financial statements materiality was set at US$3,300,000 (2019: US$4,900,000). The principal determinant in this assessment was the Association's gross technical provisions, which we consider to be the most relevant benchmark, as it indicates the scale of the Association's risks. Our materiality represents 1.0% of this number (2019:1.5%). The component auditors were advised a materiality of US$1.5m (2019: US$1m) for their audit of investments, which is a key area included in the consolidated financial statements.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at US$3,075,000 for the Group and US$2,850,000 for the Association (2019: US$4,200,000 and US$3,675,000 respectively) which represents 75% (2019: 75%) of the above lower level materiality levels. This level has been selected with consideration of the risk of aggregation of errors and our assessed overall inherent risk for the audit. We have agreed with the Audit Committee that we will report all individual audit differences in excess of US$82,000 (2019:US$245k). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Key audit matter	How our audit addressed the key audit matter	Key observations
Valuation of Technical Provisions (Note 14)		
The valuation of technical provisions is a key area of estimation within the financial statements. There is a risk that inappropriate assumptions and judgement, as detailed in note 2.2.6, are made when determining the valuation of technical provisions. Technical provisions relate to four main classes of business, P&I Retained, P&I Pool, FD&D and Occupational Disease. The gross technical provisions figure in the current year is $335m, comprised of case reserves and IBNR. The appropriate valuation of Case reserves relies on: • The expertise of the claims handlers and their experience of assessing claims in different jurisdictions and of different types; • The correct and timely entry of claims information onto the claims system before the year end. IBNR modelling is reliant on: • Relevant claims data being input correctly into actuarial models. • The application of appropriate actuarial techniques, judgement and assumptions.	In respect of case reserves, we: • Tested the operating effectiveness of controls surrounding the setting and revision of case reserves. • Agreed all case reserves above our performance materiality level to appropriate supporting documentation. • Tested the revision of a sample of case reserves made in the year and around the year end in conjunction with testing of claims payments to check that the movement was reflected in the correct period. In respect of IBNR: • We assessed the competence and experience of the Association's internal actuaries who perform the calculation of IBNR. • We tested the data provided to the actuaries and agreed this to the underlying claims system and accounting records to check that the data used in the actuarial projections was consistent with that audited. • We engaged our internal actuarial experts to perform a review of the appropriateness of the methodologies employed by the Association when setting technical provisions and to re-project technical provisions in order to assess whether technical provisions are sufficient to cover the liabilities of the Association. • We reviewed the reports prepared by our internal actuarial experts to check that the work performed and finding thereof appropriate. The audit team held meetings with the internal actuaries to challenge the approaches used. • For P&I retained, P&I Pool and FD&D claims, our actuarial experts re-projected the ultimate cost of the latest fifteen policy years using a stochastic model based around chain ladder methodology in order to provide both an independent benchmark and to assess the reasonableness of the Association's own projections. • For Occupational Disease claims, our actuarial experts assessed the model employed by the Association and re-projected the ultimate cost of these claims using industry standard occupational disease models in order to gain assurance as to the Association's projections. • Our actuarial experts, together with the Audit Engagement Partner, reviewed and challenged the report by the Association's actuary and held meetings with the Association's actuary to discuss their process, assumptions, findings and the results of the re-projection.	Based on the procedures performed, nothing came to our attention to suggest that the assumptions and judgements used in the valuation were inappropriate.
Valuation of Reinsurers' Share of Technical Provisions (Note 14)		
Reinsurer's share of technical provisions are significant to the financial statements due to the extensive reinsurance coverage. The Association's reinsurance programme covers sub-pool, pool and International Group (IG) cover across a number of policy years with varying retention limits, which adds complexity and increases the risk of misstatement. The recording of reinsurance recoveries also relies on manual processes and calculations which also increases the risk of misstatement.	In order to address this risk we: • Considered the expected impact of changes to reinsurance arrangements (including retentions and premiums) on the financial statements and assessed whether the reported results were consistent with our understanding of the programme. • Recalculated and assessed reinsurance recoveries for reinsurer's share of case reserves. • Reviewed the methodology applied to calculate reinsurer's share of IBNR, as part of our internal actuarial team and Engagement Partner review as described above. • Assessed the security of reinsurer's and potential impact on the valuation of reinsurer's recoveries, by reference to external ratings issued by ratings agencies.	In performing our work, we did not identify any instances which could indicate that valuation of reinsurers' share of technical provisions was inappropriate.

An overview of the scope of the audit

The scope of the audit for the financial statements was determined by our application of our materiality to the financial statements in association to the risks of the Group when determining the level of work to be performed. In particular, we looked at where the directors made subjective judgements and estimates, for example in respect of the valuation of technical provisions.

The Group comprises the Association and its subsidiary undertakings The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited (LSSO (Bermuda)) and the LSSO cell of Hydra Insurance Company, a Bermudan segregated cell company which were all considered to be significant components. LSSO (Bermuda) is subject to a full scope audit performed by the local component auditor. An audit of the Hydra cell for the purposes of consolidation was carried out by the group audit engagement team.

All audit work on the Group and individual accounts of the Association was performed directly by the group audit engagement team with the assistance of internal actuarial experts. LSSO (Bermuda) is a quota share reinsurer, the only business of which is ceded from and to the parent company. As a result the Group engagement team perform the audit work on all material balances of the Bermudan subsidiary except for the audit procedures over investments which was performed by the local auditor.

The Group auditor oversaw the work of the component auditor to check that the audit was performed to the materiality levels as set by the Group auditor and that any Group wide risks were appropriately communicated and addressed. We reviewed the work of the component auditor to check that the work was performed in accordance with ISAs (UK) and that it was sufficient and appropriate for us to use their work in forming our opinion on the consolidated financial statements.

Capability of the audit to detect irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group, which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Companies Act 2006, PRA and FCA rules, Bermudan law and regulation, FRS 102 and FRS 103.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the PRA and FCA; and
- review of the Group's Own Risk and Solvency Assessment (ORSA) and Internal Audit reports.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Other matters which we are required to address

We were first appointed by the Board in 1991 following the merger with another firm, who were the auditors prior to that date, with it not being possible to identify the date of that firm's original appointment. The period of uninterrupted engagement is, therefore, at least 29 years. In respect of the audit the financial statements for the year ending 20 February 2020 we were re-appointed by the members of the company at the annual general meeting held on 16 October 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Association and we remain independent of the Association in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Association and we remain independent of the Group and the Association in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Thomas Reed,
Senior Statutory Auditor

For and on behalf of
BDO LLP
Statutory Auditor
London, UK

15 May 2020

Consolidated Statement of Comprehensive Income by Class for the year ended 20 February 2020

	Note	TOTAL		CLASS 5 – P&I		CLASS 7 – WAR RISK		CLASS 8 – FD&D	
		2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000	**2020 US$'000**	2019 US$'000
TECHNICAL ACCOUNT – GENERAL BUSINESS									
Written Premium, Net of Reinsurance:									
Calls & Gross Premiums		**117,251**	104,896	**104,551**	93,149	**477**	141	**12,223**	11,606
Reinsurance Premiums		**(18,901)**	(19,347)	**(17,377)**	(18,022)	**(466)**	(204)	**(1,058)**	(1,121)
Net Premiums Written		**98,350**	85,549	**87,174**	75,127	**11**	(63)	**11,165**	10,485
Change in Provision for Unearned Premiums:									
Calls & Premiums		**(1,076)**	(1,236)	**(1,150)**	(1,122)	**-**	-	**74**	(114)
Reinsurers' Share		**399**	(324)	**408**	(341)	**-**	-	**(9)**	17
Net Earned Premium	**4**	**97,673**	83,989	**86,432**	73,664	**11**	(63)	**11,230**	10,388
Foreign Exchange Gains/(Losses)		**94**	(730)	**90**	(692)	**-**	-	**4**	(38)
Allocated Investment Return transferred from Non-Technical account		**41,423**	8,906	**39,026**	8,456	**-**	-	**2,397**	450
Claims Incurred, Net of Reinsurance:									
Gross Claims Paid	**5**	**(105,866)**	(106,878)	**(94,754)**	(97,136)	**-**	-	**(11,112)**	(9,742)
Reinsurance Recoveries	**6**	**10,183**	7,744	**7,925**	5,801	**-**	-	**2,258**	1,943
Net Claims Paid		**(95,683)**	(99,134)	**(86,829)**	(91,335)	**-**	-	**(8,854)**	(7,799)
Change in Provision for Claims:									
Gross Amount		**(8,691)**	(28,016)	**(10,582)**	(25,658)	**-**	-	**1,891**	(2,358)
Reinsurers' Share		**(14,306)**	23,131	**(12,136)**	21,476	**-**	-	**(2,170)**	1,655
Net Change in Provision for Claims		**(22,997)**	(4,885)	**(22,718)**	(4,182)	**-**	-	**(279)**	(703)
Net Incurred Claims		**(118,680)**	(104,019)	**(109,547)**	(95,517)	**-**	-	**(9,133)**	(8,502)
Net Operating Expenses	**8**	**(15,093)**	(13,644)	**(12,928)**	(11,822)	**19**	(17)	**(2,184)**	(1,805)
Balance Carried to Non-Technical Account		**5,417**	(25,498)	**3,073**	(25,911)	**30**	(80)	**2,314**	493
NON-TECHNICAL ACCOUNT									
Balance Transferred from Technical Account		**5,417**	(25,498)	**3,073**	(25,911)	**30**	(80)	**2,314**	493
Investment Income	**7**	**23,967**	16,923	**22,598**	15,968	**-**	-	**1,369**	955
Unrealised Gains/(Losses) on Investments		**11,013**	(5,711)	**10,376**	(5,339)	**-**	-	**637**	(372)
Unrealised Gains on Investment Property		**8,889**	-	**8,356**	-	**-**	-	**533**	-
Investment Expenses		**(2,446)**	(2,306)	**(2,304)**	(2,173)	**-**	-	**(142)**	(133)
Allocation of Investments to Technical Account		**41,423**	(8,906)	**39,026**	(8,456)	**-**	-	**2,397**	(450)
Balance on Ordinary Activities before Taxation		**5,417**	(25,498)	**3,073**	(25,911)	**30**	(80)	**2,314**	493
Taxation Expense	**9**	**(369)**	(301)	**(354)**	(291)	**-**	-	**(15)**	(10)
Balance on Ordinary Activities after Taxation		**5,048**	(25,799)	**2,719**	(26,202)	**30**	(80)	**2,299**	483
Accumulated Reserves at 20 February 2019		**168,843**	194,642	**152,062**	178,264	**4,386**	4,466	**12,395**	11,912
Accumulated Reserves at 20 February 2020		**173,891**	168,843	**154,781**	152,062	**4,416**	4,386	**14,694**	12,395

There are no other items of comprehensive income other than those included in the Consolidated Statement of Comprehensive Income.
The notes on pages 28 to 42 form part of these Financial Statements.

Consolidated Statement of Financial Position by Class as at 20 February 2020

Company number: 10341

	Note	TOTAL		CLASS 5 – P&I		CLASS 7 – WAR RISK		CLASS 8 – FD&D	
		2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
ASSETS									
Financial Investments	11	371,003	324,991	349,032	304,721	2,952	2,952	19,019	17,318
Investment Property	12	24,619	15,851	23,142	14,900	-	-	1,477	951
Reinsurance Assets	14	87,909	102,215	85,430	97,566	-	-	2,479	4,649
Insurance & Other Receivables	13	17,882	29,078	15,204	25,323	253	26	2,425	3,729
Reinsurers' Share of Unearned Premium	14	918	519	910	502	-	-	8	17
Deferred Acquisition Costs		570	432	559	410	-	-	11	22
Cash at Bank and in Hand		23,600	38,484	13,690	29,874	1,617	1,466	8,293	7,144
TOTAL ASSETS		526,501	511,570	487,967	473,296	4,822	4,444	33,712	33,830
LIABILITIES									
Insurance Liabilities	14	334,851	326,160	316,817	306,235	-	-	18,034	19,925
Unearned Premium	14	3,953	2,877	3,864	2,714	-	-	89	163
Current Taxation		126	125	126	125	-	-	-	-
Insurance & Other Payables	15	13,680	13,565	12,379	12,160	406	58	895	1,347
TOTAL LIABILITIES		352,610	342,727	333,186	321,234	406	58	19,018	21,435
RESERVES									
Accumulated Reserves		173,891	168,843	154,781	152,062	4,416	4,386	14,694	12,395
TOTAL LIABILITIES & RESERVES		526,501	511,570	487,967	473,296	4,822	4,444	33,712	33,830

The notes on pages 28 to 42 form part of these Financial Statements.

John L. Harbor
Member of the Board
7 May 2020

Ian E. Gooch
Member of the Board
7 May 2020

Statement of Financial Position – Holding Company only as at 20 February 2020

Company number: 10341

	Note	2020 US$'000	2019 US$'000 (restated)
ASSETS			
Investment in Group Undertakings and Participating Interests	10	5,811	5,811
Other Financial Investments	11	36,019	20,308
Reinsurance Assets	14	319,373	315,054
Insurance & Other Receivables	13	14,658	10,812
Reinsurers' Share of Unearned Premium	14	3,258	2,356
Deferred Acquisition Costs		570	432
Cash at Bank and in Hand		3,573	596
TOTAL ASSETS		**383,262**	355,369
LIABILITIES			
Insurance Liabilities	14	334,900	326,429
Unearned Premium	14	3,953	2,877
Current Taxation		126	125
Insurance & Other Payables	15	37,293	12,244
TOTAL LIABILITIES		**376,272**	341,675
RESERVES			
Accumulated Reserves as at 20 February 2019		13,694	22,974
(Loss) for the year	19	(6,704)	(9,280)
Accumulated Reserves as at 20 February 2020		6,990	13,694
TOTAL LIABILITIES & RESERVES		**383,262**	355,369

The notes on pages 28 to 42 form part of these Financial Statements.

John L. Harbor
Member of the Board
7 May 2020

Ian E. Gooch
Member of the Board
7 May 2020

Consolidated Statement of Cash Flows for the year ended 20 February 2020

	Note	2020 US$'000	2019 US$'000
CASH GENERATED FROM OPERATING ACTIVITIES			
Cash Flows From Operating Activities	**16**	**6,969**	(36,119)
Tax Paid		**(368)**	(230)
Net Cash Inflows/(Outflows) from Operating Activities		**6,601**	(36,349)
CASH GENERATED FROM INVESTING ACTIVITIES			
Payments to acquire investments		**(703,749)**	(260,843)
Receipts for the sale of investments		**681,346**	311,253
Interest Received		**946**	948
Net Cash (Outflows)/Inflows from Investing Activities		**(21,457)**	51,358
(Decrease)/Increase in Cash & Cash Equivalents		**(14,856)**	15,009
Cash & Cash Equivalents at 21 February 2019		**38,484**	25,483
Effects of Foreign Exchange on Cash & Cash Equivalents		**(28)**	(2,008)
Cash & Cash Equivalents at 20 February 2020		**23,600**	38,484

The notes on pages 28 to 42 form part of these Financial Statements.

Notes to the Financial Statements

Note 1: General Information

The London Steam-Ship Owners' Mutual Insurance Association Limited (the Association) is a non-profit making Mutual Company incorporated and registered in England and Wales. It is limited by guarantee, has no share capital and is controlled by the Members who are also insured policy holders. The address of its registered office is stated on page 4.

The Association's principal activities were the provision of Protecting & Indemnity (P&I), Freight, Demurrage & Defence (FD&D) and War Risks Insurance on a Mutual basis to its ship-owner Members. The Association also provided P&I and FD&D insurance on a Fixed Premium basis for charterers and for the Owners of small ships.

Note 2: Accounting Policies

The principal accounting policies adopted in the preparation of these Financial Statements are summarised below. These policies have been applied consistently throughout the year and in the preceding year.

2.1 Financial Reporting Framework

2.1.1 Basis of Preparation

The Financial Statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102 and FRS 103 issued by the Financial Reporting Council and prepared and approved by the Directors in accordance with the Companies Act 2006.

The Financial Statements have been presented in United States Dollars (US$) which is also the Association's functional currency and have been rounded to the nearest US$'000.

The Association is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income and the related notes that would have formed part of the Financial Statements.

As a qualifying entity under FRS 102, the Holding company is exempt from the requirements of Section 7 *Statement of Cash Flows* and Section 3 *Financial Statement Presentation* paragraph 3.17(d).

2.1.2 Basis of Consolidation

Subsidiaries are all entities where the Association is exposed or has rights to variable returns from its involvement with the subsidiary, and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Association and de-consolidated from the date on which control ceases.

Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated upon consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Association.

The Association accounts for its investment in Hydra Insurance Company Limited (Hydra) as a special purpose entity. Hydra is registered in Bermuda as a segregated accounts Company under the Segregated Accounts Companies Act 2000, and reinsures International Group Clubs for a proportion of the Pooled risk not covered by the International Group Reinsurance Programme. Each Club has its own segregated cell, wholly owned and funded by share capital, contributed surplus and premium income from the "owning" Club, although the cells are not in themselves separate legal entities. The liabilities of each segregated cell are several and not joint; the assets of each cell may only be used to satisfy the liabilities of that cell and/or the "owning" Club.

2.1.3 Going Concern

The Financial Statements have been prepared on a going concern basis. The medium and longer term impact, if any, of COVID-19 on the Association's operations and financial position cannot yet be fully evaluated. Based on the information available at the time, including in regard to COVID-19, the Directors consider it appropriate to adopt the going-concern basis of accounting in the preparation of these Financial Statements and are not aware of any material uncertainties to the Association's ability to continue to do so for at least 12 months from the date of these Financial Statements.

2.1.4 Critical Accounting Judgements and Estimation Uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

2.1.4.1 The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. At the end of the reporting period, and as presented in Note 14, the Association's technical provisions for claims amounted to US$334.9m gross of reinsurance recoveries.

2.2 Underwriting Activities

2.2.1 Calls & Premiums

Calls and Gross Premiums include Gross Annual Calls and any Supplementary Premiums levied, less Return Premiums and Provisions for Bad and Doubtful Debts. These Calls and Premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any premium adjustments relating to prior accounting periods.

The Directors retain the power to levy Supplementary Premiums, or give discounts on Mutual Premiums on open policy years.

2.2.2 Claims & Related Expenses

Claims and related expenses are included in the consolidated Statement of Comprehensive Income on an incurred basis, and include an estimate of claims 'incurred but not reported' (IBNR), based on past experience. Variances in claims estimates are included in the consolidated Statement of Comprehensive Income in the period in which they arise. The technical provision for claims outstanding includes an element of claims that have IBNR, based on calculations by a qualified actuary. Included in claims and related expenses is the Association's share of other Associations' Pool claims, debited and/or paid plus outstanding estimates.

2.2.3 Reinsurance Premiums

Reinsurance Premiums, less returns, are debited to the consolidated Statement of Comprehensive Income in the financial year as and when charged to the Association, together with a provision for any future costs of existing reinsurance policies.

2.2.4 Reinsurance Recoveries

Reinsurance Recoveries are accrued to match relevant claims and include estimated recoveries on estimated outstanding claims.

2.2.5 Claims Handling Costs

Claims incurred include the management cost of claims handling. Other management costs have been allocated to acquisition costs and administrative expenses.

2.2.6 Technical Provisions

The provision for claims outstanding in the Financial Statements comprises the Directors' estimate of the ultimate outcome of all reported claims based on current information, plus their forecast of the ultimate cost of claims IBNR. The provision also includes an allowance for claims handling costs, reflecting the estimated proportion of future staff costs which will be incurred directly in the handling of claims incurred prior to the Statement of Financial Position date.

The Association reserves individual reported claims within its retention on a 'highest reasonable likely outcome' basis, except in circumstances where there is insufficient information available to make a meaningful estimate. In such cases, a statistically derived reserve is applied, which is based on the development of similar notifications made in earlier years.

The IBNR provisions for claims within the Association's retention (Class 5 and Class 8) are determined by the Directors based on standard actuarial projection techniques and stochastic modelling, using historical information on claims developments, adjusted for inflation and other variables such as the number of ships entered with the Association, to project the likely ultimate cost of claims over a range of confidence levels. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims in more recent years. Confidence levels upon which IBNR provisions are based reflect the Directors' conservative approach to claims reserving in the Financial Statements.

When determining the appropriate level of IBNR provision for occupational disease claims, the Directors additionally take into consideration the findings from the most recently available review of reserves for this category of claims. An updated review of occupational disease claims to estimate the ultimate cost and the appropriate level of IBNR was performed in the 2019/20 financial year.

Provisions in respect of the Association's share of other Clubs' Pool claims are based on information and data supplied by the other parties to the Pooling Agreement, to which Directors apply similar actuarial techniques and models to those described above.

Provisions for all claims are based on information available at the Statement of Financial Position date. Significant delays are experienced in the notification of certain claims, sometimes of many years' duration, and accordingly, the ultimate cost of claims cannot be known with certainty at the Statement of Financial Position date. This is particularly the case in regard to the Association's exposure to occupational disease claims. Although the Directors take a conservative approach to setting the overall level of claims provisions, it is possible that subsequent information and events may result in the ultimate liability being greater than the amount provided. Any such differences between claims provisions and subsequent settlements are dealt with in the technical account - general business in later years.

Claims provisions are recognised gross of any Reinsurance Recoveries. The Reinsurers' Share of Claims Outstanding is derived from an estimation of the amounts that will be recoverable from reinsurers based on the gross claims provisions and the structure of the Association's reinsurance programme, and having due regard to the possibility of default by the reinsurers.

2.2.7 Unearned Premium
Unearned Premiums represent the proportion of Calls & Premiums written in the year that relate to unexpired terms of policies in force at the Statement of Financial Position date, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that Calls & Premiums are recognised over the period of the risk.

2.2.8 Reinsurers' Share of Unearned Premium
Reinsurers' Share of Unearned Premiums represent the proportion of Reinsurance Premiums written in the year that relate to unexpired terms of policies in force at the Statement of Financial Position date, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that Reinsurance Premium is recognised over the period of the risk.

2.2.9 Acquisition Costs
Acquisition costs represent commission and brokerage arising from Calls & Premiums written during the year. They are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

2.3 Other Accounting Policies

2.3.1 Investment Income
Account is taken of accrued interest on fixed interest securities and deposits; dividends are credited when receivable. Variances in unrealised gains and losses are included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

2.3.2 Operating Expenses
Account is taken of accruals and prepayments in arriving at operating expenses.

2.3.3 Foreign Exchange
Assets and Liabilities have been translated, where applicable, at the rates ruling at 20 February 2020.

Transactions during the year in currencies other than the Association's functional currency have been converted at the rates ruling at the date of the transaction. Assets and Liabilities in currencies other than the Association's functional currency are translated into US$ at rates of exchange on the Statement of Financial Position date, with resultant differences on translation accounted for in the Statement of Comprehensive Income.

2.3.4 Financial Investments
Financial Investments are shown at current market value at the Statement of Financial Position date. Listed Investments are stated at market value.

2.3.5 Investments in Group Undertakings & Participating Interests
Investments in Group Undertakings and Participating Interests in the Association's own Statement of Financial Position are stated at cost less impairment.

2.3.6 Taxation
The Association is assessed for UK Corporation Tax on Investment Income and any Realised and Unrealised Investment Gains less Losses in the year. Its Underwriting Operations are not taxable. LSSO (Bermuda) is assessed for Income Tax in the UK on Rental income received and may incur irrecoverable Withholding Tax deductions on Income from certain Investment Holdings.

2.3.7 Recognition & Derecognition of Financial Assets & Liabilities
Financial Assets and Financial Liabilities are recognised when the Association becomes a party to the contractual provisions of the contract.

Financial assets other than Financial Investments are initially recognised at transaction price and are subsequently measured at amortised costs using the effective interest method.

Financial investments are carried at fair value through profit or loss. They are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the income statement, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

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

Financial Liabilities are initially recognised at transaction price and subsequently measured at amortised costs using the effective interest method.

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

2.3.8 Impairment
If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the Statement of Comprehensive Income. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.3.9 Investment Property
The Investment Property is recorded in the Statement of Financial Position as outlined at Note 12 and is measured at fair value and any changes in fair value are recognised in the income statement. No depreciation or amortisation is provided in respect of the property.

Note 3: Principal Risks & Uncertainties

The Association places great importance on effective risk management and has a robust Enterprise Risk Management Framework in place to manage risk. The identification and assessment of risks, together with the implementation of effective mitigating and monitoring controls, is fundamental in maintaining a well governed organisation.

Within the Association's governance structure the Association's Board has delegated more detailed oversight of risk management to four Committees/Boards, being:

1. The Audit Committee
2. The Risk Committee
3. The Reinsurance Sub-Committee
4. The LSSO (Bermuda) Board

Each Committee has formal Terms of Reference which dovetail to provide the Association with a comprehensive risk function.

The principal areas of risk relevant to the Association's operations which is also applicable to the Holding Company's operations, and management of these risks, are described below. Areas of risk potentially impacted by the outbreak of COVID-19 are discussed in Note 20 to the Financial Statements on Post Balance Sheet Events.

3.1 Insurance Risk

Insurance risk comprises underwriting risk and reserving risk.

Underwriting Risk

Underwriting risk is the risk that Calls and Gross Premiums will not be sufficient to cover losses and associated administrative expenses. This risk is managed and mitigated by writing a diversified book of business, with documented underwriting guidelines and risk appetite tolerances in place to ensure only acceptable risks are entered with the Association. The risk function regularly reviews and analyses the portfolio of business on risk during the year, including portfolio composition by ship type, ship age and place of management.

The purchase of appropriate reinsurance is central to the management of underwriting risk on a net basis in line with the Association's capital management plan. The Association is a member of the International Group of P&I Clubs which operates a pooling system for the sharing of claims costs on an excess of loss basis, and further purchases commercial market reinsurance on a collective basis for all Clubs. The Association purchases additional reinsurance for its exposure to claims below the attachment point of the International Group Pool and for exposure to non-poolable risks.

Reserving Risk

Reserving risk is the risk that technical provisions set in respect of claims incurred but not settled are ultimately insufficient to cover future settlements and associated claims handling expenses. In common with all marine liability insurers there remains uncertainty with regards to the eventual cost of claims incurred but not settled at each year end date. Sources of uncertainty include changes in the economic climate, national and international liability regimes, commodity prices and currency fluctuations amongst many others. The Association's processes and procedures for valuing technical provisions reflect the fact that this represents a high risk area for the Association. An outline of these processes and procedures is included in Note 2.

The Association incorporates a risk margin within its technical provisions in excess of the best estimate projected future cost in order to reduce the probability that the valuation is insufficient to cover future settlements and associated claims handling costs. It is to be expected that actual experience will differ from the valuation of technical provisions at the year-end date, and there remains a residual risk that the eventual outcome will exceed the valuation.

Some results of sensitivity testing are set out below, showing the impact on surplus before tax and equity, gross and net of reinsurance. For each sensitivity, the impact of a change in a single factor is shown, with other assumptions unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred. There are no changes from the methods and assumptions used in the prior year's calculation.

	2020 US$'000	2019 US$'000
INCREASE IN LOSS RATIO BY 5 PERCENTAGE POINTS		
Gross	**(5,809)**	(5,188)
Net	**(4,884)**	(4,204)
DECREASE IN LOSS RATIO BY 5 PERCENTAGE POINTS		
Gross	**5,809**	5,188
Net	**4,884**	4,204

3.2 Liquidity Risk

This is the risk the Association may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Association faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Association's approach is to maintain a significant holding of liquid assets, either in cash or in liquid assets that can be translated into cash at short notice and at low risk of suffering any material capital loss. Cash flow projections are reviewed and updated regularly to ensure the most efficient use of cash resources.

The table below represents the monetary values of assets and liabilities into relevant maturing groups based on the date a contract will mature.

Assets at 20 February 2020	**SOFP US$'000**	**Up to 1 year US$'000**	**1-3 Years US$'000**	**3-5 Years US$'000**	**5+ Years US$'000**	**Total US$'000**
Cash & Investments	**394,603**	**98,561**	**28,830**	**55,883**	**211,329**	**394,603**
Investment Property	**24,619**	**-**	**-**	**-**	**24,619**	**24,619**
Receivables	**17,882**	**17,882**	**-**	**-**	**-**	**17,882**
Reinsurance Assets	**87,909**	**15,384**	**24,263**	**14,681**	**33,581**	**87,909**
Reinsurer Share of UPR	**918**	**918**	**-**	**-**	**-**	**918**
Deferred Acquisition Costs	**570**	**570**	**-**	**-**	**-**	**570**
Total Assets	**526,501**	**133,315**	**53,093**	**70,564**	**269,529**	**526,501**

Liabilities at 20 February 2020	**SOFP US$'000**	**Up to 1 year US$'000**	**1-3 Years US$'000**	**3-5 Years US$'000**	**5+ Years US$'000**	**Total US$'000**
Insurance Liabilities	**334,851**	**85,387**	**103,804**	**51,902**	**93,758**	**334,851**
Unearned Premium	**3,953**	**3,953**	**-**	**-**	**-**	**3,953**
Taxation	**126**	**126**	**-**	**-**	**-**	**126**
Payables	**13,680**	**13,680**	**-**	**-**	**-**	**13,680**
Total Liabilities	**352,610**	**103,146**	**103,804**	**51,902**	**93,758**	**352,610**

Assets at 20 February 2019	SOFP US$'000	Up to 1 year US$'000	1-3 Years US$'000	3-5 Years US$'000	5+ Years US$'000	Total US$'000
Cash & Investments	363,475	91,095	38,510	37,878	195,992	363,475
Investment Property	15,851	-	-	-	15,851	15,851
Receivables	29,078	29,078	-	-	-	29,078
Reinsurance Assets	102,215	10,426	19,727	15,639	56,423	102,215
Reinsurer Share of UPR	519	519	-	-	-	519
Deferred Acquisition Costs	432	432	-	-	-	432
Total Assets	512,840	121,494	57,144	52,824	281,378	512,840

Liabilities at 20 February 2019	SOFP US$'000	Up to 1 year US$'000	1-3 Years US$'000	3-5 Years US$'000	5+ Years US$'000	Total US$'000
Insurance Liabilities	326,160	64,906	81,540	49,576	130,138	326,160
Unearned Premium	2,877	2,877	-	-	-	2,877
Taxation	125	125	-	-	-	125
Payables	13,565	13,565	-	-	-	13,565
Total Liabilities	342,727	81,473	81,540	49,576	130,138	342,727

3.3 Market Risk

Market risk is the risk of an adverse financial impact arising from fluctuations in the value of, or income from, its assets and liabilities. The principal sources of market risk are interest rate risk, equity price risk and foreign currency risk.

Interest Rate Risk

The capital values of fixed interest securities, which represent a significant proportion of the Association's invested assets, and interest rates have an inverse relationship. When interest rates rise, capital values will fall to adjust the fixed coupon in line with yields available elsewhere in the market. Furthermore, the longer a security's duration, the more price sensitive it will be to changes in interest rates.

The Association's Investment Policy Statement addresses interest rate risk by actively managing the average duration of each of the Association's fixed interest portfolios.

The Association does not consider its technical provisions to be directly sensitive to interest rate risk, however the average duration of its fixed interest holdings and its technical provisions is broadly matched.

It is estimated that the value of the Association's fixed interest securities would decrease in value by the following amount if market interest rates increased by 100 basis points at the year-end date. This sensitivity analysis is limited to interest rate sensitive asset holdings as the mitigating effect of matching liability valuation changes is not considered to be significant.

Increase of 100 Basis Points	Change in Valuation US$'000
As at 20 February 2020	**12,573**
As at 20 February 2019	11,166

Equity Price Risk

Equity price risk is the risk of an adverse movement in the valuation of the Association's equity holdings. The Association's Investment policy Statement addresses equity price risk by actively managing the maximum proportion of the overall portfolio that can be allocated to this asset class and by imposing investment guidelines limiting the level of concentration in a single stock or industry sector.

A 10% decrease in the value of equity securities held at the year-end date would have decreased accumulated reserves at that date by US$6,429k (2019: US$7,453k).

Foreign Currency Risk

A significant majority of the Association's liabilities are denominated in its functional currency of US$. It does, however, incur liabilities in a range of other currencies, the two most significant being Sterling and Euro. The Association's assets are predominantly invested in US$ denominated securities to ensure there is a matching of assets and liabilities in respect of the dominant currency of operation.

The profile of the Association's assets and liabilities, categorised by settlement currency, at their translated carrying amount, is set out below. Certain amounts, either due to their nature, notably reinsurer's share of outstanding claims, or the existence of forward contracts, may depend on a different underlying currency.

As at 20 February 2020	US$ US$'000	GBP US$'000	EUR US$'000	Other US$'000	Total US$'000
Total Assets	**476,901**	**31,708**	**10,571**	**7,321**	**526,501**
Total Liabilities	**301,392**	**12,519**	**18,173**	**20,526**	**352,610**
Net Asset Position	**175,509**	**19,189**	**(7,602)**	**(13,205)**	**173,891**

As at 20 February 2019	US$ US$'000	GBP US$'000	EUR US$'000	Other US$'000	Total US$'000
Total Assets	467,864	25,123	10,994	7,589	511,570
Total Liabilities	291,436	14,337	12,792	24,162	342,727
Net Asset Position	176,428	10,786	(1,798)	(16,573)	168,843

A 5% change of the following currencies against the US dollar would be estimated to have increased/ (decreased) the surplus before taxation and net assets at the year-end by the following amounts:

	20 February 2020 US$'000	20 February 2019 US$'000
Strengthening		
Sterling	**959**	539
Euro	**(380)**	(90)
Weakening		
Sterling	**(959)**	(539)
Euro	**380**	90

3.4 Credit Risk

Credit risk is the risk that the Association will suffer a loss due to the failure of a counterparty to perform its contractual obligations. The primary sources of credit risk for the Association are:

1. Amounts due from reinsurers
2. Amounts due from Members and assureds
3. Counterparty risk with respect to investments and cash deposits

Reinsurance default risk is managed by regular monitoring of current and prospective reinsurance counterparties and by having in place guidelines in respect of acceptable credit ratings and concentration limits.

Default risk in respect of Members and assureds is managed through the careful selection of new entrants and a cycle of regular monitoring of existing Members and assureds. The Association's management has in place processes and procedures for the regular monitoring of overdue receivable amounts, including escalation procedures leading ultimately to termination of cover in the event that amounts due are not settled in an appropriately timely manner.

As at 20 February 2020	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB & Below US$'000	Other US$'000	Total US$'000
Reinsurance Assets	**87,909**	**-**	**7,938**	**75,201**	**4,738**	**32**	**87,909**
RI Share of UPR	**918**	**-**	**-**	**918**	**-**	**-**	**918**
Receivables	**17,882**	**4**	**1,347**	**2,222**	**1,021**	**13,288**	**17,882**
Deferred Acquisition Costs	**570**	**-**	**-**	**-**	**-**	**570**	**570**
Total	**107,279**	**4**	**9,285**	**78,341**	**5,759**	**13,890**	**107,279**

As at 20 February 2019	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB & Below US$'000	Other US$'000	Total US$'000
Reinsurance Assets	102,215	-	7,186	88,163	6,844	22	102,215
RI Share of UPR	519	-	-	519	-	-	519
Receivables	29,078	7	751	1,410	1,047	25,863	29,078
Deferred Acquisition Costs	432	-	-	-	-	432	432
Total	132,244	7	7,937	90,092	7,891	26,317	132,244

The Association's fixed interest securities expose the Association to the risk of default in addition to the interest rate sensitivity risk explained above. Investment related credit risk is managed by the appointment of specialist fixed income managers to invest these funds on behalf of the Association, in accordance with set investment guidelines which ensure the level of risk does not exceed the Association's risk appetite and available capital. Minimum credit criteria are maintained for all bank counterparties with ratings dependent maximum exposure limits.

As at 20 February 2020	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB US$'000	Other US$'000	Total US$'000
Cash & Investments	**394,603**	**1,109**	**150,919**	**95,690**	**45,404**	**101,481**	**394,603**

As at 20 February 2019	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB US$'000	Other US$'000	Total US$'000
Cash & Investments	363,475	1,766	117,118	90,733	45,456	108,402	363,475

3.5 Capital Management

The Association is subject to the EU's Solvency II regulatory regime which imposes capital requirements in the form of a Solvency Capital Requirement (SCR) and a Minimum Capital Requirement (MCR). The SCR is calibrated to ensure that all quantifiable risks to which the Association is exposed are taken into account and corresponds to the Value-at-Risk of capital subject to a confidence level of 99.5% over a one-year period. The MCR sets a capital requirement significantly lower than the SCR and corresponds to an amount of capital below which policy holders are exposed to an unacceptable level of risk.

The Solvency II regime provides specific rules for the valuation of assets and liabilities, including technical provisions, which differ in some respects from UK GAAP. Furthermore, Solvency II rules for the determination, classification and eligibility of own funds limit the comparability of the Association's accumulated reserves measured under UK GAAP with its own funds eligible to meet its SCR and MCR. The Association's capital management objectives and processes are designed to align with Solvency II rules on the calibration of financial risks and measurement of own funds available to meet these financial risks. Information on objectives for managing capital in line with financial risks as measured on a Solvency II consistent basis is provided in Section 5 of the Association's Solvency & Financial Condition Report available on its website.

The Association complied with its SCR and MCR throughout the period under review.

Note 4: Net Earned Premium

All contracts are concluded in the United Kingdom

	2020 US$'000	2019 US$'000
Gross Calls & Premiums Written during the Year	**117,251**	104,896
Reinsurance Premiums paid during the Year:		
Group Excess of Loss	**(9,875)**	(10,283)
Other Reinsurance Premiums	**(9,026)**	(9,064)
Net Written Premium	**98,350**	85,549
Change in Provision for Unearned Premiums	**(1,076)**	(1,236)
Change in Provision for Reinsurers' Share of Unearned Premiums	**399**	(324)
Net Earned Premium	**97,673**	83,989

Note 5: Gross Claims Paid

	2020 US$'000	2019 US$'000
Gross Payment of Association's Own Claims	**92,265**	94,634
Association's Share of Other Clubs' Pool Claims	**13,601**	12,244
Gross Claims Paid	**105,866**	106,878

Note 6: Reinsurance Recoveries

	2020 US$'000	2019 US$'000
Association's Claims under Pooling Agreement	**4,269**	4,361
Recoveries under Group Excess of Loss Policies	**1,204**	1,295
Recoveries under Sundry Reinsurance Policies	**4,710**	2,088
Reinsurance Recoveries	**10,183**	7,744

Note 7: Investment Income

	2020 US$'000	2019 US$'000
Income from Listed Investments	**10,263**	11,071
Realised Gains on Investments	**12,758**	4,904
Bank & Other Interest Receivable	**946**	948
Investment Income	**23,967**	16,923

Note 8: Net Operating Expenses

	2020 US$'000	2019 US$'000
Acquisition Costs	**11,841**	10,150
Administration Expenses	**3,252**	3,494
Net Operating Expenses	**15,093**	13,644

Included with Net Operating Expenses are the following:

	2020 US$'000	2019 US$'000
Fees payable to the Association's auditor and its associates for the audit of the Association and the Group's consolidated financial statements	**138**	149
Fees payable to the Association's auditor and its associates for other services:		
- Audit of the Association's subsidiaries	**92**	65
- Audit-related assurance services	**36**	24
- Non-audit services	**157**	-
Board and Committee Fees	**459**	542
Change in Deferred Acquisition Costs	**138**	182

Other than the Board and Committee Members, the Association does not employ any staff (2019: nil).

Note 9: Taxation

	2020 US$'000	2019 US$'000
Analysis of charge for period		
UK Corporation tax charge	**126**	125
Prior year adjustments	**-**	12
Unrelieved foreign withholding taxes	**243**	164
Income Tax Expense	**369**	301

By virtue of its mutual status, the Association is not liable to tax on its underwriting operations. The Association's own investment income is subject to UK Corporation tax. The investment income of the Association's subsidiary The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited and Hydra Insurance Company Limited – London Cell are not subject to tax in Bermuda but do suffer irrecoverable withholding tax on income from investments in certain jurisdictions.

Factors affecting the Tax Charge for Period

The tax charge for the period is lower than that produced by applying the standard rate of Corporation tax in the UK of 19% for the year. The differences are explained below:

Net surplus/(deficit) before tax	**5,417**	(25,498)
Multiplied by standard rate of Corporation tax in the UK of 19%	**1,029**	(4,845)
Effects of:		
Non-taxable mutual insurance underwriting operations	**6,841**	6,537
Non-taxable investment income	**(7,744)**	(1,567)
Current tax charge	**126**	125

Note 10: Investments in Group Undertakings & Participating Interests

	2020 US$'000	2019 US$'000
Shares in Group Undertakings & Participating Interests	**5,811**	5,811

The Companies listed below are wholly owned subsidiaries.

In view of the dormant and immaterial nature of London and Bermuda Reinsurance Company Limited (LBR), the Board has taken the decision to exclude this entity from the Consolidated Financial Statements.

	Consolidated	Address of the registered office and country of incorporation (for all companies listed)	Class of Shares	Principal Activity
Hydra Insurance Company Limited – London Cell	Yes	Clarendon House 2 Church Street, Hamilton, HM11, Bermuda	Ordinary/Preferred	Reinsurance
The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited	Yes		N/A	Reinsurance
London & Bermuda Reinsurance Company Limited	No		Ordinary	Dormant

At 20 February 2020, the Association's investment in Hydra comprised 20,000 ordinary shares at par in the Company and preferred shares and contributed surplus in the Association's cell of Hydra amounting to US$5,791k (2019: US$5,791k).

The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited is a mutual insurance company registered in Bermuda and limited by guarantee without share capital. The Association is the sole Member of The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited.

The following table summarises the Financial Statements of Hydra - London Cell for the Year Ended 20 February 2020:

	2020 US$'000	2019 US$'000
Summary Income Statement		
Net Earned Premiums	**9,123**	6,471
Net Claims Payments	**(8,089)**	(4,833)
Net Investment Income	**817**	745
Other Expenses	**(27)**	(36)
Surplus/(Deficit) for the year	**1,824**	2,347
Summary Statement of Financial Position		
Financial Investments	**37,836**	32,918
Reinsurance Assets	**364**	937
Other Receivables	**178**	115
Insurance Liabilities	**28,967**	25,170
Other Payables	**81**	1,295
Net Assets	**9,330**	7,505

Note 11: Financial Investments

All Financial Investments listed below are valued at fair value through profit or loss.

As at 20 February 2020	**Consolidated**		**Holding**	
	Market Value US$'000	**Cost US$'000**	**Market Value US$'000**	**Cost US$'000**
Equity Securities	**64,285**	**53,358**	**-**	**-**
Debt Securities	**270,679**	**262,016**	**-**	**-**
Unlisted Investments	**193**	**173**	**173**	**173**
Unlisted Deposits	**35,846**	**35,597**	**35,846**	**35,597**
Total Investments	**371,003**	**351,144**	**36,019**	**35,770**

As at 20 February 2019	Consolidated		Holding	
	Market Value US$'000	Cost US$'000	Market Value US$'000	Cost US$'000
Equity Securities	74,526	64,353	-	-
Debt Securities	230,137	231,631	-	-
Unlisted Investments	2,528	2,287	2,508	2,287
Unlisted Deposits	17,800	17,800	17,800	17,800
Total Investments	324,991	316,071	20,308	20,087

Included in financial investments is US$10,300k (2019: US$10,300k) held as collateral against third party guarantees issued by banks on behalf of the Association. The terms and conditions of this legacy guarantee facility require the Association to pledge cash collateral equal to the full value of all outstanding guarantees. The Association's liquidity is not hampered by these arrangements because the Association can recover monies from its quota share reinsurer to maintain necessary solvency and liquidity levels.

Derivatives, amounting to $16k (2019: nil) are included in the Statement of Financial Position. These relate to forward contracts purchased close to the year-end date due to the favourable US$ rate against GBP. The derivatives were purchased under normal trading terms and there are no such conditions affecting the certainty or timing over future cash flows.

DISCLOSURES OF FAIR VALUES IN ACCORDANCE WITH THE FAIR VALUE HIERARCHY

The Association has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value takes into account the following:

VALUATION METHODOLOGY	
The unadjusted quoted price in an active market for identical assets or liabilities that the Association can access at the measurement date	Level 1
Inputs other than quoted price included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly	Level 2
Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability	Level 3

The following table presents the Association's investments at Fair Value:

As at 20 February 2020	**Level 1 US$'000**	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Equity Securities	**64,285**	**-**	**-**	**64,285**
Debt Securities & Other	**119,906**	**186,812**	**-**	**306,718**
Total	**184,191**	**186,812**	**-**	**371,003**

As at 20 February 2019	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Equity Securities	74,526	-	-	74,526
Debt Securities & Other	82,489	167,976	-	250,465
Total	157,015	167,976	-	324,991

Note 12: Investment Property

The Freehold Property is 50 Leman Street, London, United Kingdom, owned by The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited. The historical cost of the property is £2,380k equating to $3,071k. In accordance with the Association's Group policy to value the property on a periodic basis, the Independent Consultants, Strettons Limited, conducted a valuation of the property during the year ended 20 February 2020.

The report determined, based on valuations prescribed by the Royal Institution of Chartered Surveyors, an open market value of the property, including leasehold improvements of GBP19,100k equating to US$24,740k as at 20 February 2020 resulting in an unrealised gain of US$8,889k in the year ended 20 February 2020. During the year, due to foreign exchange movements, the US$ value of the property decreased by US$121k to US$24,619k (2019: US$1,279k FX Loss, Property Value: US$15,851k).

Note 13: Insurance & Other Receivables

	Consolidated		**Holding**	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000
Amounts arising from Insurance Operations	**10,090**	7,073	**10,090**	7,073
Amounts arising from Reinsurance Operations	**1,979**	1,115	**1,979**	1,115
Amounts arising from Investing Operations	**1,349**	16,198	**-**	-
Prepayments & Accrued Income	**4,321**	4,548	**2,446**	2,480
Other Receivables	**143**	144	**143**	144
Total Insurance & Other Receivables	**17,882**	29,078	**14,658**	10,812

Amounts arising from Insurance Operations includes US$2,521k not overdue, US$5,596k overdue by up to six months, US$1,377k overdue by more than six months but less than 12 months, and US$596k overdue by more than 12 months.

Note 14: Net Insurance Liabilities

Balances on Insurance and Reinsurance Contracts

	Consolidated		**Holding**	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000
Insurance Liabilities				
Members Claims	**276,730**	274,196	**276,730**	274,196
Association's Share of Pool Claims	**58,121**	51,964	**58,170**	52,233
Unearned Premium	**3,953**	2,877	**3,953**	2,877
	338,804	329,037	**338,853**	329,306
Reinsurance Assets				
Market Reinsurance	**22,510**	18,456	**260,520**	259,882
Pool Recoveries	**65,399**	83,759	**58,853**	55,172
Reinsurers' Share of Unearned Premium	**918**	843	**3,258**	1,399
	88,827	79,928	**322,631**	297,459
Net Insurance Liabilities	**249,977**	219,857	**16,222**	4,029

Movement in Insurance & Reinsurance Contracts

	Consolidated 2020 US$'000	Consolidated 2019 US$'000	Holding 2020 US$'000	Holding 2019 US$'000
Insurance Liabilities & Unearned Premium				
Claims Outstanding				
As at 21 February	**326,160**	298,144	**326,429**	299,847
Claims paid in the Year	**(105,866)**	(106,878)	**(105,866)**	(106,878)
Changes to Reserves in the Year	**114,557**	134,894	**114,337**	133,460
As at 20 February	**334,851**	326,160	**334,900**	326,429
Unearned Premium				
As at 21 February	**2,877**	1,641	**2,877**	1,641
Calls & Premiums Written in the Year	**117,251**	104,896	**117,251**	104,896
Calls & Premiums Earned in the Year	**(116,175)**	(103,660)	**(116,175)**	(103,660)
As at 20 February	**3,953**	2,877	**3,953**	2,877
Total Insurance Liabilities & Unearned Premiums	**338,804**	329,037	**338,853**	329,306

	Consolidated 2020 US$'000	Consolidated 2019 US$'000	Holding 2020 US$'000	Holding 2019 US$'000
Reinsurance Assets & Reinsurers' Share of Unearned Premium				
Reinsurers' Share of Claims Outstanding				
As at 21 February	**102,215**	79,085	**315,054**	296,060
Reinsurance Recoveries made in the Year	**(10,183)**	(7,744)	**(13,901)**	(12,905)
Changes to Reserves in the Year	**(4,123)**	30,874	**18,220**	31,899
As at 20 February	**87,909**	102,215	**319,373**	315,054
Reinsurers' Share of Unearned Premium				
As at 21 February	**519**	843	**2,356**	1,399
Reinsurance Premium Written in the Year	**18,901**	19,347	**28,024**	25,818
Reinsurance Premium Earned in the Year	**(18,502)**	(19,671)	**(27,122)**	(24,861)
As at 20 February	**918**	519	**3,258**	2,356
Total Reinsurance Assets & Reinsurers' Share of Unearned Premium	**88,827**	102,734	**322,631**	317,410
Total Net Technical Provisions	**249,977**	226,303	**16,222**	11,896

Claims Development Tables

The following tables compare the projected ultimate claims experience of the Association compared with the previous projected ultimate claims for each policy year on a gross and net basis:

Gross Claims Development

As at 20 Feb 2020	Other US$'000	2011/12 US$'000	2012/13 US$'000	2013/14 US$'000	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000	2018/19 US$'000	2019/20 US$'000	Total US$'000
Gross Ultimate Claims											
Current Year		92,371	88,812	86,115	109,245	66,328	67,198	72,701	109,481	96,334	
One Year Later		81,236	82,990	79,950	110,405	66,033	67,786	72,530	115,613		
Two Years Later		78,412	79,066	76,143	107,238	66,979	72,377	71,612			
Three Years Later		80,073	72,882	74,906	101,206	64,922	69,575				
Four Years Later		77,726	70,497	71,451	105,182	63,524					
Five Years Later		77,360	67,951	70,099	101,960						
Six Years Later		76,625	66,801	71,753							
Seven Years Later		76,098	66,582								
Eight Years Later		76,613									
Gross Cumulative Paids											
Current Year		18,992	14,760	12,290	20,688	12,590	24,450	11,255	22,164	18,426	
One Year Later		48,654	37,189	32,600	40,925	30,105	39,021	30,406	47,604		
Two Years Later		62,740	52,890	44,171	66,001	39,907	54,268	40,314			
Three Years Later		69,823	57,576	50,876	71,367	48,089	60,616				
Four Years Later		70,334	60,466	56,334	75,734	55,419					
Five Years Later		71,585	62,442	63,154	86,384						
Six Years Later		73,811	64,121	66,716							
Seven Years Later		73,951	66,201								
Eight Years Later		76,005									
Gross Outstanding Claims	118,970	608	381	5,037	15,576	8,105	8,959	31,298	68,009	77,908	**334,851**

Net Claims Development

As at 20 Feb 2020	Other US$'000	2011/12 US$'000	2012/13 US$'000	2013/14 US$'000	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000	2018/19 US$'000	2019/20 US$'000	Total US$'000
Net Ultimate Claims											
Current Year		90,523	88,772	85,760	93,132	64,544	60,044	72,639	84,041	96,334	
One Year Later		75,871	82,941	79,382	89,177	62,130	60,514	69,494	88,638		
Two Years Later		72,121	78,981	75,771	86,718	63,089	65,527	68,412			
Three Years Later		72,398	72,803	74,238	84,848	60,642	63,323				
Four Years Later		69,688	70,459	71,146	84,045	59,082					
Five Years Later		69,880	67,913	69,808	83,002						
Six Years Later		69,092	66,763	71,424							
Seven Years Later		68,532	66,543								
Eight Years Later		69,005									
Net Cumulative Paids											
Current Year		18,925	14,760	12,290	20,688	11,761	20,734	11,255	22,164	18,426	
One Year Later		47,007	37,189	35,523	40,925	29,234	33,237	30,363	43,936		
Two Years Later		57,753	52,852	43,908	57,014	39,027	48,477	40,213			
Three Years Later		63,052	57,538	50,612	62,106	47,141	54,414				
Four Years Later		63,270	60,428	56,071	65,056	51,068					
Five Years Later		64,452	62,404	62,890	75,390						
Six Years Later		66,573	64,083	66,453							
Seven Years Later		66,660	66,162								
Eight Years Later		68,573									
Net Outstanding Claims	65,814	432	381	4,971	7,612	8,014	8,909	28,199	44,702	77,908	**246,942**

Note 15: Insurance & Other Payables

	Consolidated		Holding	
	2020 US$'000	2019 US$'000	**2020 US$'000**	2019 US$'000 (restated)
Amounts arising out of Insurance Operations	**1,962**	3,202	**1,962**	3,202
Amounts arising out of Reinsurance Operations	**252**	424	**252**	424
Amounts arising out of Investing Operations	**4,851**	3,410	**-**	-
Accruals & Deferred Income	**5,402**	4,349	**4,844**	4,029
Other Payables	**1,213**	2,180	**30,235**	4,589
Total Insurance & Other Payables	**13,680**	13,565	**37,293**	12,244

Note 16: Reconciliation of Surplus to Net Cash to Inflows/(Outflows) from Operating Activities

	2020 US$'000	2019 US$'000
Group Operating Surplus/(Deficit) Before Tax for the Year	**5,417**	(25,498)
Changes in Estimated Gross Outstanding Claims	**8,691**	28,016
Changes in Estimated Net Outstanding Claims	**14,306**	(23,131)
Changes in Unearned Premium	**1,076**	1,236
Changes in Reinsurers' Share of Unearned Premium	**(399)**	324
Changes in Deferred Acquisition Costs	**(138)**	(182)
Realised & Unrealised Gains/(Losses) on Investments	**(23,488)**	20
Unrealised Gains on Investment Property	**(8,889)**	-
Interest income	**(946)**	(948)
Working Capital Movements		
Changes in Receivables	**11,196**	(13,171)
Changes in Payables	**115**	(4,793)
Foreign Exchange Adjustment	**28**	2,008
Net Cash Inflows/(Outflows) from Operating Activities	**6,969**	(36,119)

Note 17: Related Party Transactions

The Association has no share capital and is controlled by its Members who are also the insured. The insurance transactions are deemed to be related party transactions but these are the only transactions between the Association and its Members.

Most of the Directors are representatives or agents of Member companies and other than the insurance and Membership interests in the Directors' companies, the Directors have no financial interest in the Association. The Board delegates the day to day operations of the Association to A. Bilbrough & Co. Limited. Three Directors of A. Bilbrough & Co. Limited are directors of the Association. The Association paid management fees of £15.0m (2018/19: £14.0m) to A. Bilbrough & Co. Limited for the year.

The Association has a wholly owned subsidiary, The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited, noted at Note 10, to whom it cedes 90% of all P&I and FD&D Claims risks and associated Reinsurance Recoveries by way of a Quota Share Reinsurance Agreement in return for 90% of the Net Premium Income (less a ceding commission) earned in the year.

Note 18: Average Expense Ratio – P&I Only

In accordance with the International Group Agreement 2020, the Association is required to include in these Financial Statements a statement of its Average Expense Ratio for P&I business for the five years ended 20 February 2020. The Ratio of 10.41% (2019: 10.30%) has been calculated in accordance with the schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements.

Note 19: Prior Year Restatement

During the year ended 20 February 2019, an element of the ceding of the reinsurance premium incurred by the Holding Company to The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited amounting to US$6,667k was omitted in the Holding Company's Income statement. This resulted in the Holding company's prior year Insurance & Other payables and the loss for the year to be overstated and the accumulated reserves as at 20 February 2019 to be understated by the omitted amount. These line items have been restated in the prior year comparatives of the Holding company Statement of Financial Position and Note 15 of the financial statements to correct for this omission. The correction resulted in the Insurance & Other payables, the loss for the year and the accumulated reserves as at 20 February 2019 to be restated to US$12,244k, US$9,280k and US$13,694k respectively compared to the previously reported amount of US$18,911k, US$15,947k and US$7,027k respectively.

This omission has no impact on the consolidated financial statements.

Note 20: Post Balance Sheet Events

Since the balance sheet date, the scale and spread of COVID-19 has increased and is now having a seriously disruptive effect on the functioning of worldwide trade. Examples of how it could potentially affect the Association include, but are not limited to: the volume of new business attaching; timely collection of premiums due; a change in the frequency and severity of claims; valuation of investment assets; and operational challenges in the handling of claims and in other aspects of the Association's operations due to government-imposed restrictions on the movement of people.

Against a background of no identifiable COVID-19 impact on the Association's operations or finances prior to the balance sheet date, the Directors have assessed this as a non-adjusting post balance sheet event.

Appendix I: Policy Year Statements (Unaudited)

Class 5 – P&I Policy Year Statement

	Notes	Reserves US$'000	Closed Years US$'000	2017/18 Policy Year US$'000	2018/2019 Policy Year US$'000	2019/2020 Policy Year US$'000	Total US$'000
Year to 20 February 2020				22	3,349	100,089	
Year to 20 February 2019				2,431	89,821	-	
Year to 20 February 2018				89,502	-	-	
Total Earned Calls & Premiums				91,955	93,170	100,089	
Earned Reinsurance Premiums				(18,411)	(17,600)	(16,514)	
Net Earned Premium				**73,544**	**75,570**	**83,575**	
Net Claims Paid	**1**			(49,272)	(54,432)	(31,005)	
Net Operating Expenses	**2**			(7,954)	(13,357)	(13,448)	
Investment Income				20,367	14,038	20,349	
Balance available for Outstanding Claims		**144,174**	**83,517**	**36,685**	**21,819**	**59,471**	**345,666**
Allocation from Reserves at 20 February 2019			1,875	-	20,185	-	22,060
Net Insurance Liabilities			(86,593)	(27,589)	(42,991)	(74,214)	(231,387)
		144,174	(1,201)	9,096	(987)	(14,743)	136,339
Unrealised Gains on Investments & Property		18,442	-	-	-	-	18,442
Allocation from Closed Years at 20 February 2020		(16,931)	1,201	-	987	14,743	-
Undiscounted Policy Year Balances		**145,685**	**-**	**9,096**	**-**	**-**	**154,781**

Class 8 – FD&D Policy Year Statement

	Notes	Reserves US$'000	Closed Years US$'000	2017/18 Policy Year US$'000	2018/2019 Policy Year US$'000	2019/2020 Policy Year US$'000	Total US$'000
Year to 20 February 2020				35	302	11,903	
Year to 20 February 2019				637	10,910	-	
Year to 20 February 2018				9,974	-	-	
Total Earned Calls & Premiums				10,646	11,212	11,903	
Earned Reinsurance Premiums				(1,892)	(1,121)	(1,050)	
Net Earned Premium				**8,754**	**10,091**	**10,853**	
Net Claims Paid				(6,329)	(6,265)	(4,324)	
Net Operating Expenses	**2**			(1,522)	(2,084)	(2,017)	
Investment Income				1,277	812	1,212	
Balance available for Outstanding Claims		**10,663**	**3,118**	**2,180**	**2,554**	**5,724**	**24,240**
Allocation from Reserves at 20 February 2019			1,726	1,306	1,801	-	4,833
Net Insurance Liabilities			(3,367)	(2,035)	(3,610)	(6,543)	(15,555)
		10,663	1,477	1,451	745	(819)	13,518
Unrealised Gains on Investments & Property		1,177	-	-	-	-	1,177
Allocation from Closed Years at 20 February 2020		658	(1,477)	-	-	819	-
Undiscounted Policy Year Balances		**12,498**	**-**	**1,451**	**745**	**-**	**14,694**

Appendix I – Notes to the Policy Year Statements (Unaudited)

Note 1: Net Claims Paid

Included within Class 5 are the Association's Share of Other Clubs' Pool Claims. The Association's liability under the Pooling Agreement for the Policy Years 2017/18 – 2019/20 has been determined on the basis of current provisional percentage shares. Final percentage shares may differ.

	2017/18 US$'000	2018/19 US$'000	2019/20 US$'000
Association's Share of Other Clubs' Pool Claims	6,565	6,339	3,416

Note 2: Net Operating Expenses

Net operating expenses include brokerage, commissions and exchange adjustments as follows:

	CLASS 5 – P&I			CLASS 8 – FD&D		
	2017/18 US$'000	2018/19 US$'000	2019/20 US$'000	2017/18 US$'000	2018/19 US$'000	2019/20 US$'000
Exchange Adjustments	(3,040)	1,894	**24**	(93)	115	**4**
Admin Expenses	2,856	2,487	**3,629**	561	743	**662**
Brokerage & Commission	8,138	8,976	**9,795**	1,054	1,226	**1,351**
Total	7,954	13,357	**13,448**	1,522	2,084	**2,017**

Note 3: Net Outstanding Claims

	CLASS 5 – P&I				CLASS 8 – FD&D			
	Closed Years US$'000	2017/18 US$'000	2018/19 US$'000	2019/20 US$'000	Closed Years US$'000	2017/18 US$'000	2018/19 US$'000	2019/20 US$'000
Gross Claims Outstanding								
Retained	127,102	23,566	52,118	55,910	5,846	2,035	3,610	6,543
Pool	18,513	7,123	14,181	18,304	-	-	-	-
	145,615	30,689	66,299	74,214	5,846	2,035	3,610	6,543
Reinsurers' Share of Claims Outstanding								
Pool	(52,182)	-	(13,581)	-	-	-	-	-
Group XL/Hydra	-	(2,852)	-	-	-	-	-	-
Other	(6,840)	(248)	(9,727)	-	(2,479)	-	-	-
	(59,022)	(3,100)	(23,308)	-	(2,479)	-	-	-
Net Claims	86,593	27,589	42,991	74,214	3,367	2,035	3,610	6,543

Appendix II: Release Calls (Unaudited)

At the meeting on 28 April 2020, the Board reviewed the Open Policy Years and Release Call rates and reached the following decisions:

	Class 5 – P&I	Class 8 – FD&D
2017/2018	5.0% of the Annual Call	5.0% of the Annual Call
2018/2019	12.5% of the Annual Call	12.5% of the Annual Call
2019/2020	15.0% of the Annual Call	15.0% of the Annual Call
2020/2021	15.0% of the Annual Call	15.0% of the Annual Call

A Release Call rate is normally formed of the sum of the estimated Supplementary Call (which under the Association's current calling structure is nil) and a margin determined from time to time by the Board, expressed as a percentage of the Annual Call. The current margins in respect of the years listed above are identical to the Release Call rates.

In setting margins at these levels the factors taken into account by the Board included each of the risk categories listed below, individually and in the aggregate.

Risk Categories:

1. Premium risk;
2. Reserve risk;
3. Market risk;
4. Counterparty default risk;
5. Catastrophe risk; and
6. Operational risk.

RELEASE CALLS – CLASS 5 (P&I ONLY)
The Association is required to publish, in accordance with the International Group Agreement 2020, data on P&I Release Calls in the form of the margins in excess of originally estimated total calls for the five preceding policy years.

The margins that apply, at the date of publication of these Financial Statements, in respect of the five preceding years are as follows:

2015/2016	Nil (Closed)
2016/2017	Nil (Closed)
2017/2018	5.0% of the Annual Call (as stated above)
2018/2019	12.5% of the Annual Call (as stated above)
2019/2020	15.0% of the Annual Call (as stated above)

The London P&I Club

Managers
A. Bilbrough & Co. Ltd.

London
50 Leman Street
London E1 8HQ
T: +44 20 7772 8000
F: +44 20 7772 8200
E: london@londonpandi.com

Greece
Ionion Building
Akti Miaouli & 2, II Merarchias Street
185 35 Piraeus
T: +30 210 458 6600
F: +30 210 458 6601
E: piraeus@londonpandi.com

Hong Kong
Room 1802 Guardian House
32 Oi Kwan Road
Hong Kong
T: +852 3761 5678
F: +852 2838 2001
E: hongkong@londonpandi.com

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