The London P&I Club

The London Steam-Ship Owners' Mutual Insurance Association Limited

Annual Report & Financial Statements
for the year ended 20 February 2021

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

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 Ptd. Ltd.,
Singapore

James L. Marshall
Berge Bulk,
Singapore

Zahid Osman
MISC Berhad,
Kuala Lumpur

Ismini Panagiotidi
Pavimar S.A.,
Athens

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

Giangiacomo Serena
SAM International Andromeda
Shipping, Monaco

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

Bendix Todsen
Hamburg

Nikolaos Veniamis
Golden Union Shipping Co. S.A.,
Piraeus
Resigned 27 January 2021

Gerasimos Ventouris
Capital Ship Management,
Piraeus
Resigned 1 July 2020

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,

Over the past year, we have experienced the far-reaching consequences of the coronavirus pandemic, including tragic human loss and profound changes to the way we live our lives. The pandemic has touched everyone in different ways and it is appropriate to turn firstly to a particular challenge for the shipping industry – the wellbeing of the world's seafarers. Many of these essential workers have been stranded onboard ships, unable to return to their homes for over 12 months with all the anxiety and strain that such uncertainty must bring. The International Group has been working with Shipowners and other industry organisations to find a way forward with governments. The strong hope must be for more progress to improve the situation and ease the way for the overdue crew changes.

With regard to the Association's performance, the financial result was impacted by a significant escalation in the cost of claims on the International Group's Pool. This followed increased claims activity and a deteriorating picture for the Pool in the two prior policy years. These developments came as rates in the P&I sector reached unsustainable levels and this combination of factors was the driver of our result, which was a deficit of US$20.3m, producing year-end free reserves of US$153.6m. While the Association's financial position remains secure, the Association has now recorded operating losses in two of the last three years. These results clearly highlight the need to address the discrepancy between P&I premiums and claims costs. The Board therefore approved a strategy for the February 2021 renewal and beyond to strengthen rates and deductible levels as well as risk selection and underwriting performance overall. Our planning for a sustainable financial base will help to ensure the continued top-class service and support that our Members and Assureds should enjoy. We look at this further in the Membership & Underwriting part of the Strategic Report.

The coronavirus did add to the Association's claims outturn although the direct overall impact in the form of Personnel claims was, thankfully, limited. At the same time, its impact on global financial markets had a direct bearing on the Board's view on investment strategy. This led to changes to asset allocation, made during the summer, to a more defensive position in line with our risk appetite. Despite the elevated volatility in the early part of the year, the portfolio achieved a healthy return of 5.3% and at this point it is right that I recognise the important work and effective control environment of our quota share reinsurer in Bermuda. I would also like to note the valuable contribution made over the years by two of its members, Samuel Kellner and Stratos Tsitsopoulos, who stood down during 2020.

Monitoring the influence of the pandemic on the Association's investments is part of a range of coronavirus-driven and other risk management measures overseen by the Board. For example, these also involve the risks and challenges associated with climate change and other sustainability issues. Work to embed climate risk in our strategy includes focusing on the Association's activities which are closely aligned with the UN's Sustainable Development Goals, reducing our own greenhouse gas emissions and examining our day-to-day management operations. We continue to develop our climate risk management and identify how the Association can support our Members in connection with the emerging challenges in this area.

Turning to the increasing cost of P&I claims, our Members' Committee has taken a particular interest in high severity liabilities incurred by owners when their ships are under pilotage. This concern was amplified by more recent reports of such claims involving large container ships and gantry cranes. We were therefore pleased by the production of a valuable report by the International Group covering P&I claims on ships under pilotage over a 20-year period. The report provides important insights and perspective on such incidents and proposes measures to reduce them, including a highly collaborative approach to their investigations when things go wrong. This is another example of the Group working effectively and collectively to improve safety – an approach we strongly support.

During the year, we said farewell to Gerasimos Ventouris and Nikolaos Veniamis who have our thanks for their service to our Members' Committee and best wishes for the future.

At the time of writing, the rapid development of vaccines against the coronavirus offers some grounds for optimism. I sincerely hope that there is light at the end of the tunnel. I would like to conclude by sending best wishes to Members and other friends of the Association as we navigate through this uncertain period.

John M. Lyras
Chairman
25 May 2021

WE CONTINUE TO DEVELOP OUR CLIMATE RISK MANAGEMENT AND IDENTIFY HOW THE ASSOCIATION CAN SUPPORT OUR MEMBERS IN CONNECTION WITH THE EMERGING CHALLENGES IN THIS AREA.

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 Association recorded a US$3.3m (2.9%) increase in gross earned premium income, to US$119.5m, in the year under review, with earned premium income after reinsurance costs increasing by 2.3% year-on-year. A 7.5% general increase for the Mutual P&I Class was announced for the February 2020 renewal and the result was a firming in rates for this product after an extended period during which rates had drifted lower.

The overall net incurred cost of claims in the year just ended was US$120.2m, a US$1.5m increase on the prior year comparative. Whilst the most recent increase was modest, annual claims costs have now increased for five consecutive financial years and claims costs in 2020/21 were twice the level of five years ago. The cost of claims falling on the International Group Pool was again high in 2020/21, this also having been the case in 2018/19 and 2019/20. A further contributory factor to the elevated level of claims costs in the 2020/21 financial year, and one we don't often see, was unfavourable development in the projected ultimate cost of claims in expired policy years, particularly the 2019/20 policy year.

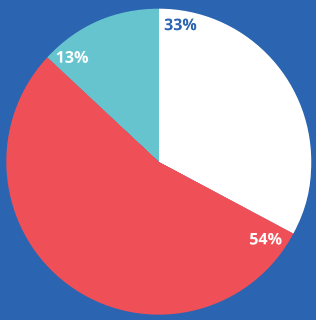
Despite one particularly high value fixed premium P&I claim in April 2020, the Association's fixed premium P&I product for smaller ships and its Charterers' P&I product each recorded profitable underwriting results for the 2020/21 financial year.

The combined ratio for the financial year was 136.8%, a level in excess of the Board's risk appetite even in a challenging claims year. As noted by the Chairman in his Report, there remains a discrepancy between P&I premiums and claims costs which the Board is committed to addressing. The Membership & Underwriting section of this Report comments on the progress made to strengthen rates and deductible levels at the most recent renewal in February 2021.

The Association's investment income and gains for the year, net of associated investment management expenses, was US$16.7m. This return of 5.3% on the Association's invested assets and cash balances was important in mitigating the full impact of the poor technical result for the year. The increase in cash holdings at the most recent year-end date, as reported in the Consolidated Statement of Cash Flows, was inflated by a temporary timing difference attributable to a change in fund manager.

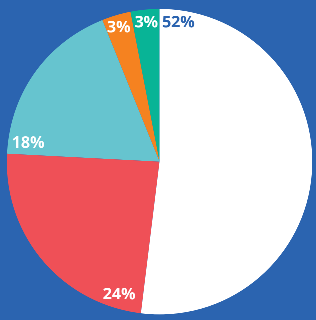
The Association recorded an after-tax operating deficit of US$20.3m in the year ended 20 February 2021. Free reserves at the year-end date stood at US$153.6m.

OWNED TONNAGE PROFILE 2021/22



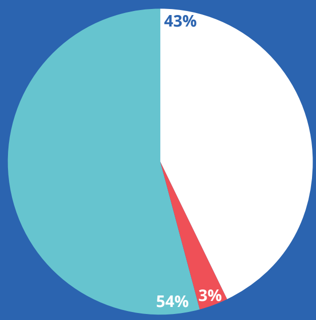
By Ship Age

- 0-9 years
- 10-19 years
- 20 years and over



By Ship Type

- Bulk Carrier
- Tankers
- Containers
- Gas Carriers
- General Cargo



Regional Spread of Members

- Asia
- Americas
- Europe

MEMBERSHIP & UNDERWRITING

The composition of the Association's Membership is illustrated by the pie charts above.

The coronavirus pandemic impacted the Association and our Members in various ways. On the underwriting side, this included a slow-down in business development, especially during the first half of the year, reflecting the initial shock as well as the operational and other disruption to shipping caused by the pandemic. It also led to our underwriters endeavouring to compensate for and adjust as much as possible to an environment in which usual levels and types of contact with Members and brokers were seriously curtailed. The longer-term implications of this experience are something which we are continuing to assess. On the one hand, it has highlighted scope for an alternative approach to the way in which the underwriting and other teams work. At the same time, it has underlined the value of direct, face to face contact – the people dimension of the business. What is clear is that the opportunity for the Association's underwriters and other people to re-establish more normal contact with Members and brokers is something we shall be delighted to see.

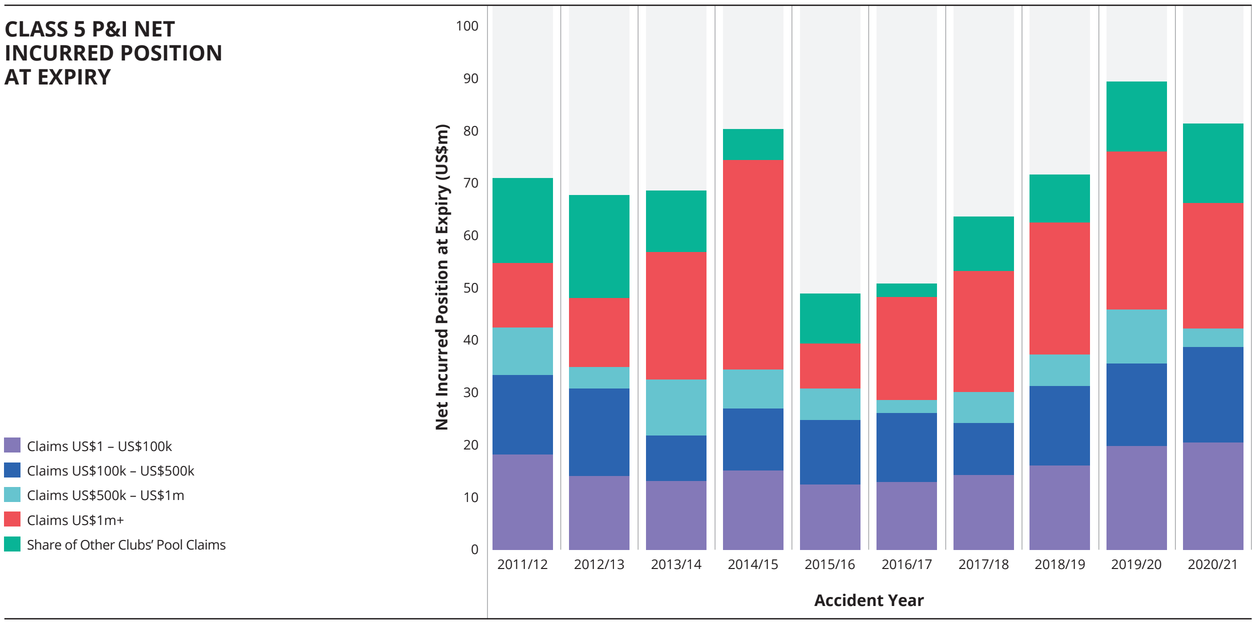
During 2020/21, 6.0m gt of mutual business attached for cover with the Association. This was drawn from new and existing Members based in markets including China, Greece, Indonesia, Singapore and the US. Over the same period there were routine terminations comprising 3.7m gt. Overall, the Association's mutual entry saw year-on-year growth of 2.1%.

The business covered by the Association's Charterers' product saw a reduction in the first half of the year, before a significant rebound in the second six months. There was also an overall stabilisation in the volume of business underwritten by the Association's other fixed premium line of business for the Owners of smaller ships, after several years of growth.

As noted in recent Strategic Reports, the effects of concerted pressure on rating levels in the P&I market have been compounded by evidence of increasing claims – and the year under review showed another unwelcome rise in the cost of Pool claims. Having taken initial steps to address this challenge at the February 2020 renewal, the Board determined that additional action should be taken for the 2021/22 policy year. Our renewal Circular and Position & Performance Review, issued last autumn, therefore advised of the setting of a general increase in rates and deductibles; and that Member loss records and risk profiles would be subject to individual review. The result would be the setting, in appropriate cases, of uplifted bespoke renewal terms.

The strong focus on rating during the renewal process at the end of the year under review meant that, in a small number of cases, agreement could not be reached on the required increases and, in a few other instances, there was a reallocation of a small number of ships to suit the strategic purposes of both the Members concerned and the Association. However, the overwhelming majority of Members understood and backed the action being taken. This has led to a material strengthening of the Association's premium base although the challenges of recent years mean that there will need to be further progress. This is being targeted on a number of fronts including an initiative launched during 2020, involving work with SiriusInsight.AI. The work involves the utilisation of behavioural analytics and artificial intelligence to enhance the underwriters' rating model and risk selection. Following extensive engagement and ongoing collaboration with Sirius the benefits derived from the project are expected to be seen during the current year.

CLASS 5 P&I NET INCURRED POSITION AT EXPIRY



CLASS 5 – PROTECTING & INDEMNITY CLAIMS

The graph above 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.

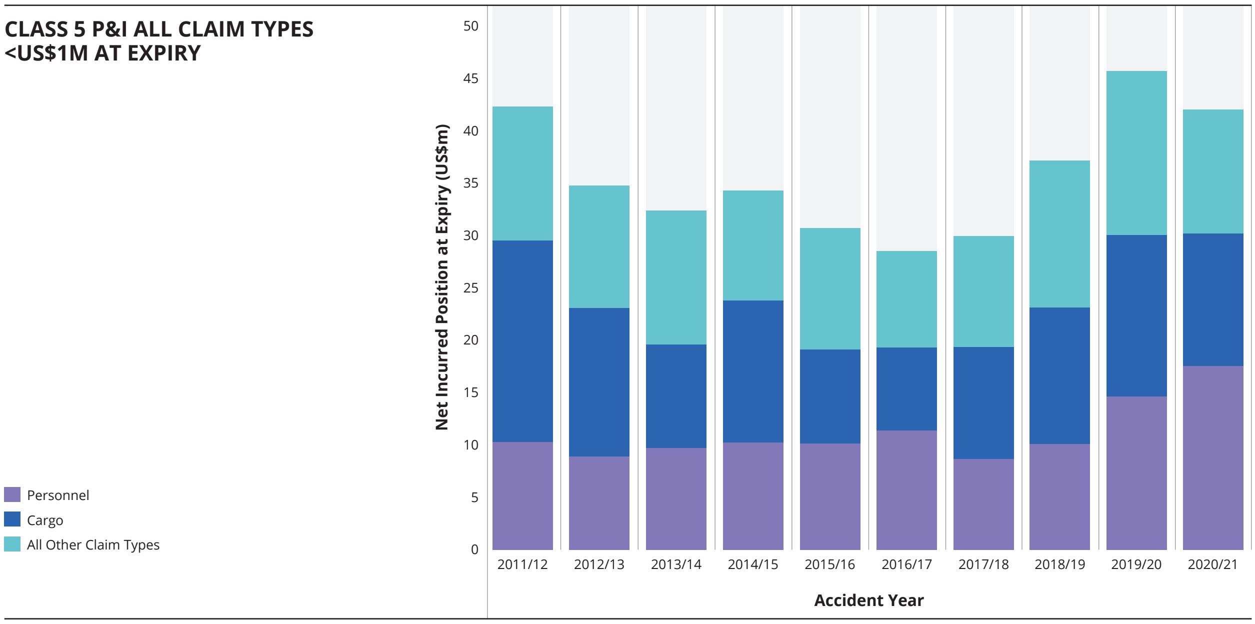
Although, at US$80.8m, the total cost of P&I claims at expiry of the 2020/21 policy year was a welcome US$7.9m lower than the comparable figure for the 2019/20 policy year, the graph above illustrates that the net incurred position at expiry was nevertheless higher than all other recent years except for 2019/20.

The graph also shows that as the aggregate cost of claims in the bands US$500k to US$1.0m and US$1.0m and over contracted sharply in 2020/21, the total cost of the two lowest severity bands, US$1 to US$100k and US$100k to US$500k, climbed for the fourth consecutive year.

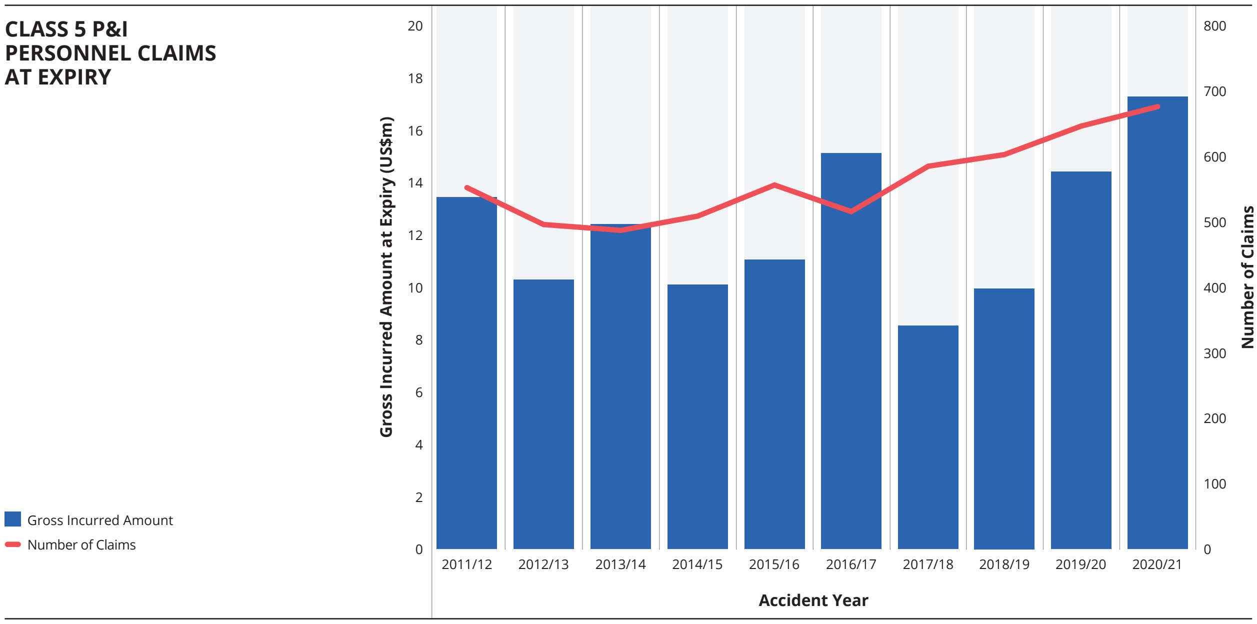
The graph below shows only claims expected to cost less than US$1.0m at expiry and illustrates that the expected aggregate cost of personnel claims rose while other claim types reduced in expected cost when compared to the prior policy year.

> ... THE TOTAL COST OF THE TWO LOWEST SEVERITY BANDS CLIMBED FOR THE FOURTH CONSECUTIVE YEAR.

CLASS 5 P&I ALL CLAIM TYPES <US$1M AT EXPIRY



CLASS 5 P&I PERSONNEL CLAIMS AT EXPIRY



By examining the above graph, we can see more clearly how the expected total cost of personnel claims rose from US$14.6m at expiry of 2019/20 to US$17.5m a year later – an increase of just under US$3.0m. The number of personnel files climbed from 653 to 683.

The single biggest driver for both the increased file count and increased claims cost was, unsurprisingly, the COVID-19 pandemic. There were 55 files opened for known or suspected COVID-19 cases and the quarantine or medical treatment costs on those files are expected to cost in excess of US$1.0m. Fortunately, the impact of COVID-19 is expected to reduce through 2021/22.

CLASS 8 – FREIGHT, DEMURRAGE & DEFENCE CLAIMS

The graph below shows the gross incurred position at expiry for the last ten policy years, split by entry type.

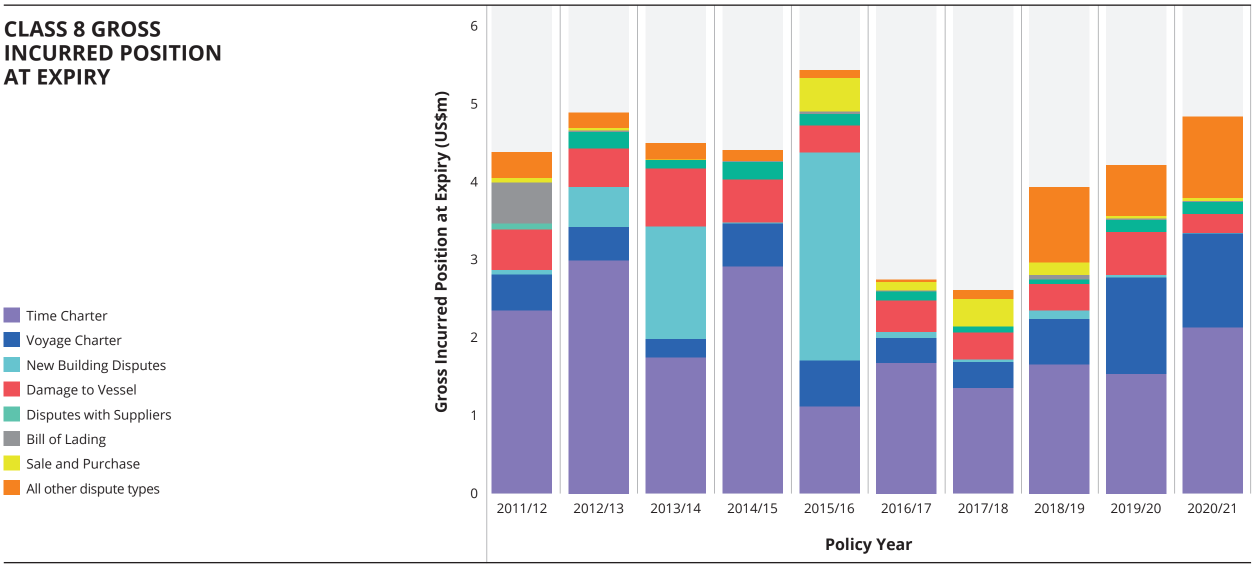
The total cost of FDD files at expiry increased to US$4.8m compared to the 20 February 2020 figure of US$4.2m. Prior to the commencement of the 2020/21 policy year there was a concern that problems associated with the supply of IMO 2020 compliant fuels would lead to an increase in the costs associated with "bad bunkers". However, concerns about IMO 2020 compliant bunkers have not had an adverse impact on the performance of the FDD class in the 2020/21 policy year.

There have been fewer files and lower costs attributed to disputes over "bad bunkers" than in the prior policy year.

As with P&I, there was, however, a material impact in both file count and costs associated with the various operational difficulties created by the COVID-19 pandemic. For both owners and charterers, the file counts increased because of disputes driven directly by crews being diagnosed with COVID-19 and, in some cases, the quarantine delays that followed. There were also disputes arising from delays and deviations to effect crew changes plus other operational difficulties. The total cost of disputes under time charterparties in 2020/21 increased by just under US$0.6m when compared to the same figure at expiry of the 2019/20 policy year. The second most expensive case in that category involves Arbitration proceedings over whether a charterer was entitled to cancel a charter because COVID-19 restrictions impacted upon the Owners' ability to arrange a SIRE inspection.

There was one other external factor which impacted upon the higher FDD costs at expiry – two of the top three most expensive files in the 2020/21 policy year are cases in which narcotics have been found in the cargo holds. In neither case is there any evidence that the crew or Owners were aware of the presence of drugs onboard.

CLASS 8 GROSS INCURRED POSITION AT EXPIRY



DURING THE YEAR, THE BOARD TOOK A NUMBER OF STEPS TO REDUCE THE FUTURE VOLATILITY OF THE ASSOCIATION'S INVESTMENT RETURNS.

INVESTMENTS

Despite the chronic economic upheavals and personal tragedies caused by the COVID-19 pandemic, with widespread lockdowns and supply chain disruptions, the Association's investment portfolio performed well during the year. This was due to the lessons learned from the financial crisis of 2008 and the consequent rapid and unwavering support being provided by the major central banks in the form of ultra-low interest rates and quantitative easing (QE) programmes and by governments through unprecedented peacetime economic stimulus and support. Together these efforts have helped offset the worst of the potential effects on people and economies and have also supported financial markets.

At the start of the Association's financial year, financial markets reacted suddenly and savagely as COVID-19 spread rapidly throughout the world. The authorities' reaction of population lockdowns to contain the spread of the virus curtailed consumption and travel while factories were forced into restricted working with disrupted supply chains and limited labour. Within a month of the start of the Association's financial year, the S&P 500 had dropped by over 30% from its high, which had been posted just prior to the end of the previous financial year, while credit spreads widened sharply. Yields on government bonds also dropped precipitously as central banks reacted with interest rate cuts and QE programmes and as investors sought safe havens.

After the initial reaction in February and March, financial markets benefited from an abundant supply of cheap money and quantitative easing, as substantial falls in government bond yields pushed investors into assets where a higher yield was on offer, or there was a prospect of a capital gain in the form of equities. This trend was reinforced by the policy shift at the Federal Reserve in August when they shifted to "average inflation targeting" which investors took to imply that rates would stay low even if inflation started to pick up. Thus, while 2020 was a year of unprecedented dislocation, disruption and tragedy, it was also a successful year in terms of the performance of the Association's investment portfolio as government bond yields fell, the US equity market rose to new highs and corporate bond yield spreads contracted back towards previous levels.

During the year, the Board took a number of steps to reduce the future volatility of the Association's investment returns. The main rebalancing was in the late summer of 2020 after the US equity market had recovered most of its losses. The equity component of the portfolio was cut from approximately 19% of assets under management to about 10% of assets under management at that time. Other changes were more modest, including an improvement in the average credit quality of fixed income holdings, but the overall effect was to reduce the future volatility of the investment portfolio during turbulent times. While the new portfolio structure may deliver lower returns in rising markets, the Board's view is that it will be more resilient should turbulent times return.

Overall, the equity component drove the returns for 2020/21, with the equity portfolios delivering an almost 20% gain over the year. However, and importantly, the fixed income portfolios also delivered a significant return of almost 6% which was the key which underpinned the overall investment return of 5.3% for the year on invested assets and cash holdings.

Looking forward, and being sensitive to the fact that valuations of financial assets may have become extended, the Board is maintaining an ongoing review of the structure of the investment portfolio.

... THE MANAGEMENT OF FINANCIAL RISKS ARISING FROM CLIMATE CHANGE HAS BECOME A STRATEGIC RISK CUTTING ACROSS OTHER RISK CATEGORIES ...

REINSURANCE

International Group Clubs continue to offer unparalleled levels of liability cover to their mutual Memberships, underpinned by the Group's Pooling and collective market reinsurance placement. Circular 5.591, available on the Association's website (www.londonpandi.com), provides access to information on the structure of the Pool and the collective reinsurance programme for 2021/22. The structure remains unchanged from 2020/21. This same information is also accessible on the News section of the International Group's website (www.igpandi.org). In summary, all claims between US$10m and US$100m, plus the first US$100m of claims within the Layer One main placement, are retained by the Pool and shared between the 13 Member Clubs. Risks in excess of US$100m, other than the US$100m retained by the Pool, are transferred to commercial market underwriters. The General Excess Loss programme has a per event limit of US$2.1bn and there is an additional US$1.0bn of overspill cover excess of US$2.1bn. Reinsurance rates for Owners increased by an average of 1.4% in 2021/22, and a fifth category for fully cellular container ships was added to assist in the equitable allocation of premium cost in line with loss experience across the Group entered fleet.

The Association has a tailored reinsurance programme to further manage risk within the US$10m Club retention for the mutual P&I product, and to protect it against both elevated frequency and individual high severity risks emerging from any of the other product offerings. We understand that all buyers of reinsurance in the marine liability market at the most recent renewal were required to accept price increases, even on clean records, and this was the case for the Association. In the context of this hardening market, however, the Association successfully concluded negotiations for all required protections at an acceptable overall price.

REGULATORY

Two major events dominated the regulatory environment in 2020, COVID-19 and Brexit.

With respect to COVID-19, regulators' initial focus was on the solvency margins and liquidity of regulated firms as investment market valuations fell sharply. Once this threat had largely abated, attention then turned to operational resilience and fair treatment of customers. As noted elsewhere in this report, the Association has responded well to COVID-19, maintaining its operations and continuing to provide high levels of service to Members and Assureds. Steps have been taken to safeguard the well-being of the Managers' employees and to ensure that workplace culture remains positive and fit for purpose as we move to a hybrid working environment post COVID-19.

In terms of Brexit, this continued to throw up challenges regarding the treatment of continuing liabilities post-Brexit as most EU member states were reluctant to finalise plans for the orderly run-off of existing EEA liabilities until the terms of the UK's exit from the EU were confirmed. In the event, all EU member states where the Association has continuing liabilities have since agreed transitional run-off arrangements, and of course, the Association's Cypriot subsidiary commenced underwriting new EEA risks on 01 January 2021.

In addition to the above challenges, the management of financial risks arising from climate change (Climate Risk) has become a strategic risk cutting across other risk categories and, by the end of 2021, the Association is required by its regulators to have embedded Climate Risk into its risk management system. The Managers' Climate Change Working Group, with the assistance of an external firm of climate change experts, has developed a programme to take appropriate action to ensure the Association complies with the regulatory guidelines before the deadline. This programme includes considerations relating to the Association's greenhouse gas emissions, risk management processes, claims implications and reporting and disclosure.

Other than the regulatory impact of the new guidelines, the direct short-term financial consequences of climate change on the Association are expected to be minimal. However, medium and long-term risk scenarios have been identified which could have a more material impact. The Association expects to be able to mitigate such risks over the time period in which these scenarios may develop, for example by pricing and product design.

SECTION 172(1) STATEMENT

The following section describes how the Directors have performed their duties under Section 172(1)(a)-(f) of the Companies Act 2006. S172 sets out a series of matters to which the Directors must have regard in performing their duties to promote the success of the Association for the benefit of its Members, which includes having regard to other stakeholders.

Board decisions and their impact on stakeholders

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 Financial Statements, the Budget and Business Plan, Board and Sub-Committee Terms of Reference, the Management Responsibilities Map and material 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.

THE TABLE BELOW SETS OUT A NUMBER OF DECISIONS TAKEN BY THE BOARD DURING THE YEAR, AND HOW STAKEHOLDER VIEWS WERE TAKEN INTO ACCOUNT:

Decision	How we took stakeholders into account	Long-term implications
Sustainable Pricing	**Members/Assureds, Regulators and Rating agencies** The Board is responsible for promoting the Association's long-term sustainable success and ensuring that the necessary resources are in place to meet its objectives. The Board approved its renewal strategy actions at its Meeting in October 2020 following consultation with the Members' Committee, and approved the setting of renewal terms aligned with its objective to move the Association's combined ratio back within risk appetite and ensure fairness across the Membership. Additionally, it approved plans to set targeted loss prevention initiatives aimed at reducing the cost of the Association's high frequency attritional claims exposure; refinement of an ongoing initiative to use behavioural analytics and artificial intelligence to enhance the Underwriters' rating model and risk tool; and a project targeting control and where possible reductions in operating costs.	• Improve underwriting decisions • Improve the Association's financial strength • Maintain and improve S&P rating • Generate sustainable long-term growth
Investments	**Members/Assureds and Regulators** Maintaining a strong capital base and ensuring adequate liquidity means that the Association has the resources now and in future to be able to maintain and improve its offering to its Members. The pandemic heightened regulators' concerns that all insurance companies should be adequately resourced to protect both the companies concerned and the interests of their customers. Following the rapid recovery in equities post the March market falls, the Board took the decision to reduce its equity risk thereby reducing its solvency requirements and enhancing capital coverage.	Prudent financial management supports the long-term financial stability of the Association and its ability to meet the needs of its Members.
Sustainability	**People, Regulators and wider community in which the Association operates** The Board took the decision at its July meeting to develop its sustainability policy and an international sustainability consultancy was duly appointed to help the Association succeed in its climate change ambitions, develop its policy and meet the regulatory guidelines in respect of managing climate risk by the end of 2021. The Association is required to publish a Modern Slavery Statement each year setting out the steps it has taken to prevent modern slavery and human trafficking in its businesses and supply chains. At its July meeting, the Board noted the actions taken by management and the year-on-year improvement to ensure the business and its supply chains are free from modern slavery and human trafficking and approved the Company's Modern Slavery Statement which is available on the Association's website.	Progressing the organisation to net zero thus reducing our impact on the environment and supporting the well-being of the planet for future generations. This helps protect the Managers' employees and individuals who work within our suppliers.

Engaging with our stakeholders
The stakeholders most affected by Board decisions are the Association's Members and Assureds, the Managers and their employees, and our regulators. By building strong relationships with our stakeholders, the Board aims to deliver the Association's strategy in line with our long-held values.

Members and assureds
COVID-19 has inevitably affected our engagement with our Members, Assureds and friends in the shipping community with travel limitations leading to the cancellation of our usual annual calendar of business functions across the regions in which we do business. We have, however, continued to hold Members' Committee meetings remotely and three meetings took place in 2020 enabling the Board to consult with the Members' representatives prior to taking significant decisions affecting Members and Assureds in relation to the renewal strategy and payment of large claims, thus ensuring the fair treatment of the Membership.

The Board receives regular reports on developments likely to impact Members and Assureds and in particular has been closely monitoring the Managers' ability to maintain service levels throughout the pandemic.

Our people
The Association's people are the employees of its Managers, and the Board has supported Management with its efforts to ensure their safety and well-being and effective home-working. Internal surveys have been carried out to obtain feedback from the Managers' staff on how well supported and informed they feel and to undertake a 'temperature test' of the culture within the organisation to help identify changes required post pandemic. An employee focus group is in place to respond to the results of the surveys enabling staff to influence change. Such steps, we believe, will help to build and maintain trust and allow for openness, honesty and transparency in the workplace.

Regulators
As an insurance company, the Association is subject to financial services regulations and approvals in all the markets in which we operate. Through the Managers, the Board is kept informed of regulatory change and any issues arising where action is required to be taken by the Board. We remain open and constructive with our regulators; during 2020 the main areas of regulatory attention were the Association's liquidity and solvency positions during the March to July period when the COVID-19 impact on insurers was at its most severe.

Community and wider environment
The Association continues to provide support to seafarers, and in addition to the regular programme of accident prevention education onboard ships, this year it partnered with the International Seafarers Welfare and Assistance Network (ISWAN) to provide additional support to vulnerable seafarers in response to the pandemic.

The Board has continued to support human rights by imposing strict sanctions controls across the Association and has made further enhancements to its ability to detect ships undertaking 'sanctioned activity' with the purchase of improved AIS tracking software.

The Board has reviewed the Association's sustainable business approach and over the coming years will focus its efforts on taking action on climate change and supporting Members on their transition to reduce their greenhouse gas (GHG) emissions as well as continuing loss prevention activities to prevent environmental damage from pollution following a claims event.

Management has commissioned an external GHG emissions assessment of its own operations and the Association's so that targets can be set for reducing these emissions over time. The Association is also evaluating the impact of its investment strategy on climate change.

INTERNATIONAL GROUP
The International Group of P&I Clubs monitors the operation and reinsurance of its claims pooling arrangements, so that they can continue providing the Association and other participating Clubs with efficient high level reinsurance protection. In turn, these arrangements underpin the key role that the Group plays in supporting global regulatory regimes to compensate victims of maritime accidents, promoting safety of life at sea and protecting the environment and property.

Examples of the Group's activities in these areas during the year under review include its report on P&I claims involving ships under pilotage, highlighted in the Chairman's Report. Additionally, it has recently produced a safety animation to help prevent the loss of life in enclosed spaces onboard ships. The Association's management team participates in a wide range of the Group's sub-committees and working groups, and more detailed news of its work can be found at: 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.

THE ASSOCIATION CONTINUES TO PROVIDE SUPPORT TO SEAFARERS ... THIS YEAR IT PARTNERED WITH THE INTERNATIONAL SEAFARERS WELFARE AND ASSISTANCE NETWORK TO PROVIDE ADDITIONAL SUPPORT IN RESPONSE TO THE PANDEMIC.

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 15 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:

Robert A. Ho   Vassilis J. Laliotis   John J. Raggio

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:

John M. Lyras	John J. Raggio	James L. Marshall	Giangiacomo Serena
Vassilis J. Laliotis	Zhongyi (John) Su	Vassilis Papageorgiou	

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

As noted in the Section 172(1) Statement forming part of the Strategic Report, the Association has appointed a sustainability consultant to help it succeed in its climate change ambitions, develop its sustainability policy and meet the regulatory guidelines in respect of managing climate risk by the end of 2021.

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.

ENERGY AND CARBON REPORTING

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2019 (the Regulation) require the Group to report publicly on its UK energy use and carbon emissions as the Group has annual turnover in excess of GBP36m and a Statement of Financial Position balance in excess of GBP18m. However, as the entirety of the management of the business is outsourced and managed by A. Bilbrough & Co. Limited the Group has no control over these costs. This would classify the Group as a low energy user and therefore no disclosures have been made.

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 M. Lyras
Chairman
25 May 2021

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. Due to the continuing impact of the COVID-19 pandemic, particularly on travel, the location of the Meeting has not yet been decided, although it will most likely take place on Wednesday 13 October 2021. Final arrangements including the location will be notified to Members by Circular nearer to the 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 on the financial statements

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 2021 and of the Group’s deficit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the Association financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 2021 which comprise the Consolidated Statement of Comprehensive Income And Retained Earnings by Class, Consolidated Statement of Financial Position by Class, Consolidated Statement of Cash Flows, Statement of Financial Position – Holding Company Only, Holding Company Statement of Changes in Equity 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board in 1991 to audit the financial statements 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. In respect of the year ended 20 February 2021 we were reappointed by the members on 14 October 2020. The period of total uninterrupted engagement including retenders and reappointments is, therefore, at least 30 years. We remain 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. The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Association.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors’ assessment of the Group and the Association’ ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the Group’s forecast and budgets, challenging the stated growth assertions and ensuring that projections were in line with justifiable assumptions and judgments;
- Checked the solvency through reference of sufficiency of assets to meet liabilities and the adequacy of regulatory capital;
- Enquiries of the Directors and scrutiny of management information, board minutes and regulatory correspondence to ascertain the existence of undisclosed events or obligations that may cast doubt on the Group’s ability to continue as a going concern; and
- Challenge of the latest Own Risk and Solvency Assessment provided, noting the Group to be in excess of the minimum solvency requirement.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]	*100% (2020: 100%) of Group revenue* *100% (2020: 100%) of Group total assets*		
Key audit matters		**2021**	2020
	Valuation of Technical Provisions	✓	✓
	Valuation of Reinsurers' Share of Technical Provisions	✓	✓
Materiality	*Group financial statements as a whole* $3,850,000 (2020: $4,100,000) based on 2.5% (2020: 2.4%) net assets.		

[1]These are areas which have been subject to a full scope audit by the group engagement team.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group comprises the Association and its subsidiary undertakings: The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited ("LSSO (Bermuda)"), the LSSO cell of Hydra Insurance Company, a Bermudan segregated cell company, and The London P&I Insurance Company (Europe) Limited ("LSSO (Europe)"), which were all considered to be significant components. LSSO (Bermuda) was subject to a full scope audit procedures by the group audit team and a local component auditor which is a non-BDO member firm. An audit of the Hydra cell for the purposes of consolidation was carried out by the Group audit engagement team. The Group audit engagement team have carried out specified procedures for material balances using group performance materiality for the purposes of consolidation for LSSO (Europe).

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole.

LSSO (Bermuda) is a quota share reinsurer, the only business of which is ceded by the Association. As a result, the group engagement team performed the audit work on all material balances of the Bermudan subsidiary except for the audit procedures over investments which were performed by the component auditor.

The Group auditor oversaw the work of the component auditor to ensure that the work they carried out was performed to the materiality levels as set by the Group auditor and that any Group wide risks were appropriately communicated through the issuance of group instructions and addressed in line with planned timelines. 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.

Key audit matters

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.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of Technical Provisions (Note 15)	
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 $352m, 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. Significant judgment and estimation is involved in valuing technical provisions and we therefore consider this to be a key audit matter.	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 adequate supporting documentation to evidence valuation of individual case estimates were appropriate. • 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 and supported by adequate supporting documentation to evidence estimate revision. In respect of IBNR: • We assessed the competence and experience of Management's expert 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 findings thereof were 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.
Key observations	Based on the procedures performed, nothing came to our attention to suggest that the assumptions and judgements used in the valuation of technical provisions were inappropriate.
Valuation of Reinsurers' Share of Technical Provisions (note 15)	
There is a risk that inappropriate assumptions and judgement, as detailed in note 2.2.6, are made when determining the valuation of reinsurers' share of technical provisions. 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. We therefore considered this area to be a key audit matter.	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 reinsurers' share of case reserves. • Reviewed the methodology applied to calculate reinsurers' share of IBNR, as part of our internal actuarial team and Engagement Partner review as described above. • Assessed the security of reinsurers and potential impact on the valuation of reinsurers' recoveries, by reference to external ratings issued by ratings agencies.
Key observations	In performing our work, we did not identify any instances which could indicate that valuation of reinsurers' share of technical provisions was inappropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Association financial statements	
	2021 $m	2020 $m	2021 $m	2020 $m
Materiality	3.85	4.10	3.49	3.30
Basis for determining materiality	2.5% of Net Assets	2.4% of Net Assets	1.0% of Technical Provisions	1.0% of Technical Provisions
Rationale for the benchmark applied	We considered this to be the most relevant benchmark, as it reflects a key measure of the financial position of an insurance company and is used to assess the level of free reserves and in determining solvency.		We considered this to be the most appropriate benchmark as it reflects the gross technical liabilities of the Association excluding intra group reinsurance arrangements, most accurately reflecting the scale of the risks.	
Performance materiality	2.93	3.10	2.62	2.48
Basis for determining performance materiality	75% of Materiality was used as the risk of errors leading to a material misstatement is deemed to be low based on history, management attitude towards proposed adjustments and accounts subject to estimation.	75% of Materiality was used as the risk of errors leading to a material misstatement is deemed to be low based on history, management attitude towards proposed adjustments and accounts subject to estimation.	75% of Materiality was used as the risk of errors leading to a material misstatement is deemed to be low based on history, management attitude towards proposed adjustments and accounts subject to estimation.	75% of Materiality was used as the risk of errors leading to a material misstatement is deemed to be low based on history, management attitude towards proposed adjustments and accounts subject to estimation.

Component materiality

We set materiality for each component of the Group based on a percentage of between 37% and 90% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from US$1,450,000 to US$3,490,000. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US$77,000 (2020: US$82,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	**In our opinion, based on the work undertaken in the course of the audit:** • **the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and** • **the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.** **In the light of the knowledge and understanding of the Group and Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.**
Matters on which we are required to report by exception	**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 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, 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- agreement of the Group financial statement disclosures to underlying supporting documentation;
- our responses to significant audit risks (technical provisions and management override of controls) are intended to sufficiently address the risk of fraudulent manipulation. In particular we engaged the actuarial team as auditor's expert to review the assumptions and methodology applied by the Association in the valuation of technical provisions to check the methods utilised are appropriate as described in the key audit matters section above;
- review and verified large and unusual journal entries made in the year, agreeing the journals to 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;
- obtaining an understanding of the legal and regulatory framework applicable to the Association's operations, these included but were not limited to compliance with Companies Act 2006, PRA and FCA rules;
- review of correspondence with the regulators, being Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA);
- review of correspondence with Bermuda Monetary Authority ("BMA");
- review of the Association's Own Risk and Solvency Assessment (ORSA).

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, 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, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

Thomas Reed, Senior Statutory Auditor
For and on behalf of **BDO LLP** Statutory Auditor
London, UK

28 May 2021

Consolidated Statement of Comprehensive Income and Retained Earnings by Class for the year ended 20 February 2021

	Note	TOTAL		CLASS 5 – P&I		CLASS 7 – WAR RISK		CLASS 8 – FD&D	
		2021 US$'000	2020 US$'000	2021 US$'000	2020 US$'000	2021 US$'000	2020 US$'000	2021 US$'000	2020 US$'000
TECHNICAL ACCOUNT – GENERAL BUSINESS									
Written Premium, Net of Reinsurance:									
Calls & Gross Premiums		**119,382**	117,251	**106,636**	104,551	**715**	477	**12,031**	12,223
Reinsurance Premiums		**(19,459)**	(18,901)	**(17,758)**	(17,377)	**(631)**	(466)	**(1,070)**	(1,058)
Net Premiums Written		**99,923**	98,350	**88,878**	87,174	**84**	11	**10,961**	11,165
Change in Provision for Unearned Premiums:									
Calls & Premiums		**115**	(1,076)	**91**	(1,150)	**-**	-	**24**	74
Reinsurers' Share		**(70)**	399	**(68)**	408	**-**	-	**(2)**	(9)
Net Earned Premium	**5**	**99,968**	97,673	**88,901**	86,432	**84**	11	**10,983**	11,230
Foreign Exchange (Losses) /Gains		**(155)**	94	**(163)**	90	**-**	-	**8**	4
Allocated Investment Return transferred from Non-Technical account		**16,670**	41,423	**15,674**	39,026	**-**	-	**996**	2,397
Claims Incurred, Net of Reinsurance:									
Gross Claims Paid	**6**	**(117,907)**	(105,866)	**(105,868)**	(94,754)	**-**	-	**(12,039)**	(11,112)
Reinsurance Recoveries	**7**	**14,214**	10,183	**13,363**	7,925	**-**	-	**851**	2,258
Net Claims Paid		**(103,693)**	(95,683)	**(92,505)**	(86,829)	**-**	-	**(11,188)**	(8,854)
Change in Provision for Claims:									
Gross Amount		**(17,374)**	(8,691)	**(17,370)**	(10,582)	**-**	-	**(4)**	1,891
Reinsurers' Share		**873**	(14,306)	**(420)**	(12,136)	**-**	-	**1,293**	(2,170)
Net Change in Provision for Claims		**(16,501)**	(22,997)	**(17,790)**	(22,718)	**-**	-	**1,289**	(279)
Net Incurred Claims		**(120,194)**	(118,680)	**(110,295)**	(109,547)	**-**	-	**(9,899)**	(9,133)
Net Operating Expenses	**9**	**(16,489)**	(15,093)	**(14,362)**	(12,928)	**27**	19	**(2,154)**	(2,184)
Balance Carried to Non-Technical Account		**(20,200)**	5,417	**(20,245)**	3,073	**111**	30	**(66)**	2,314
NON-TECHNICAL ACCOUNT									
Balance Transferred from Technical Account		**(20,200)**	5,417	**(20,245)**	3,073	**111**	30	**(66)**	2,314
Investment Income	**8**	**23,189**	23,967	**21,839**	22,598	**-**	-	**1,350**	1,369
Unrealised Gains on Investments		**482**	11,013	**422**	10,376	**-**	-	**60**	637
Unrealised (Losses)/Gains on Investment Property		**(4,687)**	8,889	**(4,406)**	8,356	**-**	-	**(281)**	533
Investment Expenses		**(2,314)**	(2,446)	**(2,181)**	(2,304)	**-**	-	**(133)**	(142)
Allocation of Investments to Technical Account		**16,670**	41,423	**15,674**	39,026	**-**	-	**996**	2,397
Net (Deficit)/Surplus before Taxation		**(20,200)**	5,417	**(20,245)**	3,073	**111**	30	**(66)**	2,314
Taxation Expense	**10**	**(120)**	(369)	**(111)**	(354)	**-**	-	**(9)**	(15)
Net (Deficit)/Surplus after Taxation		**(20,320)**	5,048	**(20,356)**	2,719	**111**	30	**(75)**	2,299
Accumulated Reserves at 20 February 2020		**173,891**	168,843	**154,781**	152,062	**4,416**	4,386	**14,694**	12,395
Accumulated Reserves at 20 February 2021		**153,571**	173,891	**134,425**	154,781	**4,527**	4,416	**14,619**	14,694

There are no other items of comprehensive income other than those included in the Consolidated Statement of Comprehensive Income and Retained Earnings.

The notes on pages 28 to 43 form part of these Financial Statements.

Consolidated Statement of Financial Position by Class as at 20 February 2021

Company number: 10341

	Note	TOTAL 2021 US$'000	TOTAL 2020 US$'000	CLASS 5 – P&I 2021 US$'000	CLASS 5 – P&I 2020 US$'000	CLASS 7 – WAR RISK 2021 US$'000	CLASS 7 – WAR RISK 2020 US$'000	CLASS 8 – FD&D 2021 US$'000	CLASS 8 – FD&D 2020 US$'000
ASSETS									
Financial Investments	12	**293,213**	371,003	**272,287**	349,032	**2,952**	2,952	**17,974**	19,019
Investment Property	13	**22,406**	24,619	**21,062**	23,142	**-**	-	**1,344**	1,477
Reinsurance Assets	15	**88,782**	87,909	**85,010**	85,430	**-**	-	**3,772**	2,479
Current Taxation		**18**	-	**18**	-	**-**	-	**-**	-
Insurance & Other Receivables	14	**28,749**	17,882	**25,409**	15,204	**349**	253	**2,991**	2,425
Reinsurers' Share of Unearned Premium	15	**848**	918	**842**	910	**-**	-	**6**	8
Deferred Acquisition Costs	17	**566**	570	**556**	559	**-**	-	**10**	11
Cash at Bank and in Hand		**110,454**	23,600	**99,515**	13,690	**1,516**	1,617	**9,423**	8,293
TOTAL ASSETS		**545,036**	526,501	**504,699**	487,967	**4,817**	4,822	**35,520**	33,712
LIABILITIES									
Insurance Liabilities	15	**352,225**	334,851	**334,187**	316,817	**-**	-	**18,038**	18,034
Unearned Premium	15	**3,839**	3,953	**3,773**	3,864	**-**	-	**66**	89
Current Taxation		**-**	126	**-**	126	**-**	-	**-**	-
Insurance & Other Payables	16	**35,401**	13,680	**32,314**	12,379	**290**	406	**2,797**	895
TOTAL LIABILITIES		**391,465**	352,610	**370,274**	333,186	**290**	406	**20,901**	19,018
RESERVES									
Income & Expenditure Account		**153,571**	173,891	**134,425**	154,781	**4,527**	4,416	**14,619**	14,694
TOTAL LIABILITIES & RESERVES		**545,036**	526,501	**504,699**	487,967	**4,817**	4,822	**35,520**	33,712

The notes on pages 28 to 43 form part of these Financial Statements.

John M. Lyras
Member of the Board
25 May 2021

Ian E. Gooch
Member of the Board
25 May 2021

Statement of Financial Position – Holding Company only as at 20 February 2021

Company number: 10341

	Note	2021 US$'000	2020 US$'000
ASSETS			
Investment in Group Undertakings and Participating Interests	**11**	**25,811**	5,811
Other Financial Investments	**12**	**10,300**	36,019
Reinsurance Assets	**15**	**334,866**	319,373
Current Taxation		**18**	-
Insurance & Other Receivables	**14**	**13,982**	14,658
Reinsurers' Share of Unearned Premium	**15**	**3,160**	3,258
Deferred Acquisition Costs	**17**	**566**	570
Cash at Bank and in Hand		**25,401**	3,573
TOTAL ASSETS		**414,104**	383,262
LIABILITIES			
Insurance Liabilities	**15**	**352,244**	334,900
Unearned Premium	**15**	**3,839**	3,953
Current Taxation		**-**	126
Insurance & Other Payables	**16**	**37,626**	37,293
TOTAL LIABILITIES		**393,709**	376,272
RESERVES			
Income & Expenditure account		**20,395**	6,990
TOTAL LIABILITIES & RESERVES		**414,104**	383,262

The notes on pages 28 to 43 form part of these Financial Statements

John M. Lyras
Member of the Board
25 May 2021

Ian E. Gooch
Member of the Board
25 May 2021

Holding Company Statement of Changes in Equity for the year ended 20 February 2021

	Attributable to members	
	Income & Expenditure account US$'000	Total US$'000
At 20 February 2019	**13,694**	**13,694**
Deficit for the financial year	(6,704)	(6,704)
At 20 February 2020	**6,990**	**6,990**
Surplus for the financial year	13,405	13,405
At 20 February 2021	**20,395**	**20,395**

The notes on pages 28 to 43 form part of these Financial Statements.

Consolidated Statement of Cash Flows for the year ended 20 February 2021

	2021 US$'000	2020 US$'000
CASH GENERATED FROM OPERATING ACTIVITIES		
Net (Loss)/Income Before Tax	**(20,200)**	5,417
Adjustments for:		
Changes in Estimated Outstanding Claims (net of reinsurance)	**16,501**	22,997
Changes in Unearned Premium (net of reinsurance)	**(45)**	677
Changes in Deferred Acquisition Costs	**4**	(138)
Realised & Unrealised Gains/(Losses) on Investments	**(11,997)**	(23,488)
Unrealised Losses/(Gains) on Investment Property	**4,687**	(8,889)
Interest Income	**(199)**	(946)
Changes in Receivables	**(10,867)**	11,196
Changes in Payables	**21,721**	115
Foreign Exchange Adjustment	**(2,319)**	28
Cash From Operating Activities	**(2,714)**	6,969
Tax Paid	**(266)**	(368)
Net Cash (Outflows)/Inflows from Operating Activities	**(2,980)**	6,601
CASH GENERATED FROM INVESTING ACTIVITIES		
Payments to acquire investments	**(655,557)**	(703,749)
Receipts for the sale of investments	**742,873**	681,346
Interest Received	**199**	946
Net Cash Inflows/(Outflows) from Investing Activities	**87,515**	(21,457)
Increase/(Decrease) in Cash & Cash Equivalents	**84,536**	(14,856)
Cash & Cash Equivalents at 21 February 2020	**23,600**	38,484
Effects of Foreign Exchange on Cash & Cash Equivalents	**2,319**	(28)
Cash & Cash Equivalents at 20 February 2021	**110,454**	23,600

The notes on pages 28 to 43 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 smaller 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 Group and individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006.

The Financial Statements have been prepared under the historical cost convention, modified to include certain items at fair value.

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 Retained Earnings 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. 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.

2.2 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 and Retained Earnings 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 and Retained Earnings in the period in which they arise. The technical provision for claims outstanding includes an element of claims IBNR, based on calculations by a qualified actuary. Included in claims and related expenses is the Association's share of other Associations' Pool claims paid plus outstanding estimates.

2.2.3 Reinsurance Premiums
Reinsurance Premiums, less returns, are debited to the consolidated Statement of Comprehensive Income and Retained Earnings 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 2020/21 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 and Retained Earnings 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 2021.

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 and Retained Earnings.

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 and Retained Earnings. 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 13 and is measured at fair value and any changes in fair value are recognised in the Statement of Comprehensive income and Retained Earnings. No depreciation or amortisation is provided in respect of the property.

2.3.10 Cash and Cash Equivalents
Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition.

Note 3: 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.

3.1 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.

The technical provisions at the year end are disclosed in Note 15.

Note 4: 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.

4.1 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.

Uncertainty as to the incidence of claims, and their ultimate cost, is the principal risk variable in respect of insurance risk. The impact on the reported operating result before tax, and year-end free reserves, of a 5% change in net claims incurred for the year just ended, with all other inputs unchanged, is shown below. The methodology chosen was to select a level of sensitivity which was in line with the actual level of annual claims volatility experienced in recent years and also one which was seen as reasonably possible for the year just ended.

Consolidated	2021 US$'000	2020 US$'000
INCREASE IN CLAIMS INCURRED BY 5 PERCENTAGE POINTS		
Gross	**(6,764)**	(5,728)
Net	**(6,010)**	(5,934)
DECREASE IN CLAIMS INCURRED BY 5 PERCENTAGE POINTS		
Gross	**6,764**	5,728
Net	**6,010**	5,934

Holding	2021 US$'000	2020 US$'000
INCREASE IN CLAIMS INCURRED BY 5 PERCENTAGE POINTS		
Gross	**(6,759)**	(5,722)
Net	**(554)**	(643)
DECREASE IN CLAIMS INCURRED BY 5 PERCENTAGE POINTS		
Gross	**6,759**	5,722
Net	**554**	643

4.2 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.

Consolidated

Assets at 20 February 2021	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	**403,667**	**124,028**	**20,311**	**56,546**	**202,782**	**403,667**
Taxation	**18**	**18**	**-**	**-**	**-**	**18**
Receivables	**28,749**	**28,749**	**-**	**-**	**-**	**28,749**
Reinsurance Assets	**88,782**	**16,691**	**23,261**	**14,827**	**34,003**	**88,782**
Reinsurer Share of UPR	**848**	**848**	**-**	**-**	**-**	**848**
Deferred Acquisition Costs	**566**	**566**	**-**	**-**	**-**	**566**
Total Financial Assets	**522,630**	**170,900**	**43,572**	**71,373**	**236,785**	**522,630**

Liabilities at 20 February 2021	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	**352,225**	**97,566**	**103,554**	**53,538**	**97,567**	**352,225**
Unearned Premium	**3,839**	**3,839**	**-**	**-**	**-**	**3,839**
Payables	**35,401**	**35,401**	**-**	**-**	**-**	**35,401**
Total Financial Liabilities	**391,465**	**136,806**	**103,554**	**53,538**	**97,567**	**391,465**

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
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 Financial Assets	501,882	133,315	53,093	70,564	244,910	501,882

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 Financial Liabilities	352,610	103,146	103,804	51,902	93,758	352,610

Holding

Assets at 20 February 2021	**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	**35,701**	**35,701**	**-**	**-**	**-**	**35,701**
Taxation	**18**	**18**	**-**	**-**	**-**	**18**
Receivables	**13,982**	**13,982**	**-**	**-**	**-**	**13,982**
Reinsurance Assets	**334,866**	**90,414**	**98,116**	**51,569**	**94,767**	**334,866**
Reinsurer Share of UPR	**3,160**	**3,160**	**-**	**-**	**-**	**3,160**
Deferred Acquisition Costs	**566**	**566**	**-**	**-**	**-**	**566**
Total Financial Assets	**388,293**	**143,841**	**98,116**	**51,569**	**94,767**	**388,293**

Liabilities at 20 February 2021	**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	**352,244**	**97,572**	**103,560**	**53,541**	**97,571**	**352,244**
Unearned Premium	**3,839**	**3,839**	**-**	**-**	**-**	**3,839**
Payables	**37,626**	**37,626**	**-**	**-**	**-**	**37,626**
Total Financial Liabilities	**393,709**	**139,037**	**103,560**	**53,541**	**97,571**	**393,709**

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	39,592	39,436	-	-	156	39,592
Receivables	14,658	14,658	-	-	-	14,658
Reinsurance Assets	319,373	80,163	98,048	49,503	91,659	319,373
Reinsurer Share of UPR	3,258	3,258	-	-	-	3,258
Deferred Acquisition Costs	570	570	-	-	-	570
Total Financial Assets	377,451	138,085	98,048	49,503	91,815	377,451

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	334,900	92,767	98,461	50,905	92,767	334,900
Unearned Premium	3,953	3,953	-	-	-	3,953
Taxation	126	126	-	-	-	126
Payables	37,293	37,293	-	-	-	37,293
Total Financial Liabilities	376,272	134,139	98,461	50,905	92,767	376,272

4.3 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 2021	**13,458**
As at 20 February 2020	12,573

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$5,624k (2020: US$6,429k).

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.

Consolidated

As at 20 February 2021	**US$ US$'000**	**GBP US$'000**	**EUR US$'000**	**Other US$'000**	**Total US$'000**
Total Assets	**500,107**	**24,925**	**19,495**	**509**	**545,036**
Total Liabilities	**345,886**	**11,319**	**19,528**	**14,732**	**391,465**
Net Asset Position	**154,221**	**13,606**	**(33)**	**(14,223)**	**153,571**

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

Holding

As at 20 February 2021	**US$ US$'000**	**GBP US$'000**	**EUR US$'000**	**Other US$'000**	**Total US$'000**
Total Assets	**372,553**	**10,626**	**17,488**	**13,437**	**414,104**
Total Liabilities	**348,180**	**11,320**	**19,477**	**14,732**	**393,709**
Net Asset Position	**24,373**	**(694)**	**(1,989)**	**(1,295)**	**20,395**

As at 20 February 2020	US$ US$'000	GBP US$'000	EUR US$'000	Other US$'000	Total US$'000
Total Assets	336,578	11,248	16,525	18,911	383,262
Total Liabilities	325,054	12,519	18,173	20,526	376,272
Net Asset Position	11,524	(1,271)	(1,648)	(1,615)	6,990

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:

	Consolidated		**Holding**	
	20 February 2021 US$'000	20 February 2020 US$'000	**20 February 2021 US$'000**	20 February 2020 US$'000
Strengthening				
Sterling	**680**	959	**(35)**	(64)
Euro	**(2)**	(380)	**(99)**	(82)
Weakening				
Sterling	**(680)**	(959)	**35**	64
Euro	**2**	380	**99**	82

4.4 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.

Consolidated

As at 20 February 2021	**SOFP US$'000**	**AAA US$'000**	**AA US$'000**	**A US$'000**	**BBB US$'000**	**Other US$'000**	**Total US$'000**
Reinsurance Assets	**88,782**	**-**	**14,953**	**69,922**	**3,885**	**22**	**88,782**
RI Share of UPR	**848**	**-**	**-**	**848**	**-**	**-**	**848**
Taxation	**18**	**-**	**-**	**-**	**-**	**18**	**18**
Receivables	**28,718**	**1**	**8,431**	**2,870**	**409**	**17,007**	**28,718**
Deferred Acquisition Costs	**566**	**-**	**-**	**-**	**-**	**566**	**566**
Total	**118,932**	**1**	**23,384**	**73,640**	**4,294**	**17,613**	**118,932**

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
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

Holding

As at 20 February 2021	**SOFP US$'000**	**AAA US$'000**	**AA US$'000**	**A US$'000**	**BBB US$'000**	**Other US$'000**	**Total US$'000**
Reinsurance Assets	**334,866**	**-**	**14,953**	**69,922**	**3,885**	**246,106**	**334,866**
RI Share of UPR	**3,160**	**-**	**-**	**848**	**-**	**2,312**	**3,160**
Taxation	**18**	**-**	**-**	**-**	**-**	**18**	**18**
Receivables	**13,881**	**-**	**-**	**2,665**	**-**	**11,216**	**13,881**
Deferred Acquisition Costs	**566**	**-**	**-**	**-**	**-**	**566**	**566**
Total	**352,491**	**-**	**14,953**	**73,435**	**3,885**	**260,218**	**352,491**

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
Reinsurance Assets	319,373	-	7,938	75,201	4,738	231,496	319,373
RI Share of UPR	3,258	-	-	918	-	2,340	3,258
Receivables	14,658	-	-	1,979	-	12,679	14,658
Deferred Acquisition Costs	570	-	-	-	-	570	570
Total	337,859	-	7,938	78,098	4,738	247,085	337,859

With the exception of the amounts arising from Insurance Operations within receivables, there were no financial assets that were past due. The amounts past due for amounts arising from Insurance Operations are disclosed in Note 14.

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.

Consolidated

As at 20 February 2021	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB US$'000	Other US$'000	Total US$'000
Cash & Investments	**403,667**	**430**	**111,663**	**151,402**	**54,972**	**85,200**	**403,667**

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

Holding

As at 20 February 2021	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB US$'000	Other US$'000	Total US$'000
Cash & Investments	**35,701**	**-**	**-**	**35,701**	**-**	**-**	**35,701**

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	39,592	-	-	39,419	-	173	39,592

4.5 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 5: Net Earned Premium

All contracts are concluded in the United Kingdom

	2021 US$'000	2020 US$'000
Gross Calls & Premiums Written during the Year	**119,382**	117,251
Reinsurance Premiums paid during the Year:		
Group Excess of Loss	**(9,623)**	(9,875)
Other Reinsurance Premiums	**(9,836)**	(9,026)
Net Written Premium	**99,923**	98,350
Change in Provision for Unearned Premiums	**115**	(1,076)
Change in Provision for Reinsurers' Share of Unearned Premiums	**(70)**	399
Net Earned Premium	**99,968**	97,673

Note 6: Gross Claims Paid

	2021 US$'000	2020 US$'000
Gross Payment of Association's Own Claims	**104,414**	92,265
Association's Share of Other Clubs' Pool Claims	**13,493**	13,601
Gross Claims Paid	**117,907**	105,866

Note 7: Reinsurance Recoveries

	2021 US$'000	2020 US$'000
Association's Claims under Pooling Agreement	**9,275**	4,269
Recoveries under Group Excess of Loss Policies	**1,006**	1,204
Recoveries under Sundry Reinsurance Policies	**3,933**	4,710
Reinsurance Recoveries	**14,214**	10,183

Note 8: Investment Income

	2021 US$'000	2020 US$'000
Income from Listed Investments	**9,526**	10,263
Realised Gains on Investments	**13,464**	12,758
Bank & Other Interest Receivable	**199**	946
Investment Income	**23,189**	23,967

Note 9: Net Operating Expenses

	2021 US$'000	2020 US$'000
Acquisition Costs	**12,559**	11,841
Administration Expenses	**3,930**	3,252
Net Operating Expenses	**16,489**	15,093

Included with Net Operating Expenses are the following:

	2021 US$'000	2020 US$'000
Fees payable to the Association's auditor and its associates for the audit of the Association and the Group's consolidated financial statements	**135**	138
Fees payable to the Association's auditor and its associates for other services:		
- Audit of the Association's subsidiaries	**122**	92
- Audit-related assurance services	**37**	36
- Non-audit services	**-**	157
Board and Committee Fees	**510**	459
Change in Deferred Acquisition Costs	**(4)**	138

Other than the Board and Committee Members, the Association does not employ any staff (2020: nil).

Note 10: Taxation

	2021 US$'000	2020 US$'000
Analysis of charge for period		
UK Corporation tax charge	**-**	126
Prior year adjustments	**(20)**	-
Unrelieved foreign withholding taxes	**140**	243
Income Tax Expense	**120**	369

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 Owner's 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:

	2021 US$'000	2020 US$'000
Net (deficit)/surplus before tax	**(20,200)**	5,417
Multiplied by standard rate of Corporation tax in the UK of 19%	**(3,838)**	1,029
Effects of:		
Non-taxable mutual insurance underwriting operations	**7,005**	6,841
Non-taxable investment income	**(3,167)**	(7,744)
Prior year adjustments to current tax	**(20)**	-
Unrelieved foreign withholding taxes	**140**	243
Income Tax Expense	**120**	369

Note 11: Investments in Group Undertakings & Participating Interests

	2021 US$'000	2020 US$'000
Shares in Group Undertakings & Participating Interests	**25,811**	5,811

The Companies listed below are wholly owned subsidiaries.

	Consolidated	Address of the registered office and country of incorporation	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	Clarendon House 2 Church Street, Hamilton, HM11, Bermuda	N/A	Reinsurance
The London P&I Insurance Company (Europe) Limited	Yes	5 Esperidon Street 4th Floor Strovolos, 2001 Nicosia, Cyprus	Ordinary	Insurance
London & Bermuda Reinsurance Company Limited	No	Clarendon House 2 Church Street, Hamilton, HM11, Bermuda	Ordinary	Dormant

The London P&I Insurance Company (Europe) Limited was incorporated as a limited company in Cyprus on 12 June 2020. At 20 February 2021, the Association's investment comprised 20,000 ordinary shares at a premium in the Company amounting to US$20,000k.

At 20 February 2021, 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 (2020: 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.

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.

The following table summarises the Financial Statements of Hydra – London Cell for the Year Ended 20 February 2021:

	2021 US$'000	2020 US$'000
Summary Income Statement		
Net Earned Premiums	**9,125**	9,123
Net Claims Payments	**(13,513)**	(8,089)
Net Investment Income	**131**	817
Other Expenses	**(43)**	(27)
(Deficit)/Surplus for the year	**(4,300)**	1,824
Summary Statement of Financial Position		
Financial Investments	**38,245**	37,836
Reinsurance Assets	**369**	364
Other Receivables	**-**	178
Insurance Liabilities	**33,568**	28,967
Other Payables	**16**	81
Net Assets	**5,030**	9,330

Note 12: Financial Investments

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

As at 20 February 2021	**Consolidated**		**Holding**	
	Market Value US$'000	**Cost US$'000**	**Market Value US$'000**	**Cost US$'000**
Equity Securities	**56,236**	**45,576**	**-**	**-**
Debt Securities	**226,657**	**219,255**	**-**	**-**
Unlisted Investments	**20**	**-**	**-**	**-**
Unlisted Deposits	**10,300**	**10,300**	**10,300**	**10,300**
Total Investments	**293,213**	**275,131**	**10,300**	**10,300**

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

Included in financial investments is US$10,300k (2020: US$10,300k) pledged as collateral for contingent liabilities. P&I Clubs will, in certain circumstances, issue bank guarantees on behalf of a Member to claimants as security for their alleged claim, with this security limited to the Member's legal liability established either by agreement or in accordance with the relevant law and covered under the Member's Terms of Entry. 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 nil (2020: US$16k) are included in the Statement of Financial Position. These relate to forward contracts purchased close to the year-end date due to the favourable US$ 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 2021	**Level 1 US$'000**	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Equity Securities	**56,236**	**-**	**-**	**56,236**
Debt Securities & Other	**61,943**	**175,014**	**-**	**236,957**
Total	**118,179**	**175,014**	**-**	**293,193**

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

Note 13: Investment Property

The investment property is 50 Leman Street, London E1 8HQ, United Kingdom, owned by The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited. In accordance with FRS 102 Section 16, the Association accounts for this investment property at fair value at each reporting date with changes in fair value recognised in the Consolidated Statement of Comprehensive Income and Retained Earnings.

A valuation of this investment property was undertaken in 2019 by an Independent Chartered Surveyor and Royal Institution of Chartered Surveyors (RICS) Registered Valuer with the relevant knowledge, skills and understanding to undertake this valuation competently. The Valuation Report was dated 24 September 2019 and the market value of the property was assessed at GBP19,100k on that date. The report was prepared in accordance with the RICS Valuation – Global Standards, incorporating the International Valuation Standards (IVS) 2017 (The Red Book). The valuation methodology to arrive at an opinion of market value was the investment method, whereby the estimated rental value of the property is capitalised by means of a Years Purchase which is the conventionally used basis. As a check to this method, the valuer also considered sales of similar office comparables and based the valuation on a GBP per square foot basis.

A desktop valuation update has been undertaken by the same Independent Chartered Surveyor and RICS Registered Valuer to reflect the impact of the COVID-19 pandemic on the assessed market value. This desktop Valuation Report was dated 15 March 2021 and the market value of the property was assessed at GBP16,000k on that date. On the basis of this Report the Association has assessed the fair value of the property at GBP16,000k as at 20 February 2021 with the reduction in fair value over the financial year recognised as an investment loss in the Consolidated Statement of Comprehensive Income and Retained Earnings.

	2021 US$'000	**2020 US$'000**
As at 21 February	**24,619**	15,851
Unrealised (loss)/gain	**(4,687)**	8,889
FX movement	**2,474**	(121)
As at 20 February	**22,406**	24,619

Note 14: Insurance & Other Receivables

	Consolidated		**Holding**	
	2021 US$'000	2020 US$'000	**2021 US$'000**	2020 US$'000
Amounts arising from Insurance Operations	**7,919**	10,090	**7,913**	10,090
Amounts arising from Reinsurance Operations	**2,665**	1,979	**2,665**	1,979
Sale transactions of financial investments awaiting settlement	**12,649**	1,349	**-**	-
Prepayments & Accrued Income	**4,872**	4,321	**3,298**	2,446
Other Receivables	**644**	143	**106**	143
Total Insurance & Other Receivables	**28,749**	17,882	**13,982**	14,658

Amounts arising from Insurance Operations includes US$2,049k not overdue (2020: US$2,521k), US$3,491k overdue by up to six months (2020: US$5,596K), US$1,597k overdue by more than six months but less than 12 months (2020: US$1,377K), and US$782k overdue by more than 12 months (2020: US$596K). All balances past due are not impaired (2020: Nil).

Note 15: Net Insurance Liabilities

Balances on Insurance and Reinsurance Contracts

	Consolidated		**Holding**	
	2021 US$'000	2020 US$'000	**2021 US$'000**	2020 US$'000
Insurance Liabilities				
Members Claims	**285,609**	276,730	**285,609**	276,730
Association's Share of Pool Claims	**66,616**	58,121	**66,635**	58,170
Unearned Premium	**3,839**	3,953	**3,839**	3,953
	356,064	338,804	**356,083**	338,853
Reinsurance Assets				
Market Reinsurance	**31,503**	22,510	**269,182**	260,520
Pool Recoveries	**57,279**	65,399	**65,684**	58,853
Reinsurers' Share of Unearned Premium	**848**	918	**3,160**	3,258
	89,630	88,827	**338,026**	322,631
Net Insurance Liabilities	**266,434**	249,977	**18,057**	16,222

Movement in Insurance & Reinsurance Contracts

	Consolidated 2021 US$'000	Consolidated 2020 US$'000	Holding 2021 US$'000	Holding 2020 US$'000
Insurance Liabilities & Unearned Premium				
Claims Outstanding				
As at 21 February	**334,851**	326,160	**334,900**	326,429
Claims paid in the Year	**(117,907)**	(105,866)	**(117,907)**	(105,866)
Changes to Reserves in the Year	**135,281**	114,557	**135,251**	114,337
As at 20 February	**352,225**	334,851	**352,244**	334,900
Unearned Premium				
As at 21 February	**3,953**	2,877	**3,953**	2,877
Calls & Premiums Written in the Year	**119,382**	117,251	**119,382**	117,251
Calls & Premiums Earned in the Year	**(119,496)**	(116,175)	**(119,496)**	(116,175)
As at 20 February	**3,839**	3,953	**3,839**	3,953
Total Insurance Liabilities & Unearned Premiums	**356,064**	338,804	**356,083**	338,853

	Consolidated 2021 US$'000	Consolidated 2020 US$'000	Holding 2021 US$'000	Holding 2020 US$'000
Reinsurance Assets & Reinsurers' Share of Unearned Premium				
Reinsurers' Share of Claims Outstanding				
As at 21 February	**87,909**	102,215	**319,373**	315,054
Reinsurance Recoveries made in the Year	**(14,214)**	(10,183)	**(23,131)**	(13,901)
Changes to Reserves in the Year	**15,087**	(4,123)	**38,624**	18,220
As at 20 February	**88,782**	87,909	**334,866**	319,373
Reinsurers' Share of Unearned Premium				
As at 21 February	**918**	519	**3,258**	2,356
Reinsurance Premium Written in the Year	**19,459**	18,901	**28,584**	28,024
Reinsurance Premium Earned in the Year	**(19,529)**	(18,502)	**(28,682)**	(27,122)
As at 20 February	**848**	918	**3,160**	3,258
Total Reinsurance Assets & Reinsurers' Share of Unearned Premium	**89,630**	88,827	**338,026**	322,631
Total Net Technical Provisions	**266,434**	249,977	**18,057**	16,222

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 2021	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	2020/21 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	99,611	
One Year Later		81,236	82,990	79,950	110,405	66,033	67,786	72,530	115,613	118,403		
Two Years Later		78,412	79,066	76,143	107,238	66,979	72,377	71,612	111,068			
Three Years Later		80,073	72,882	74,906	101,206	64,922	69,575	70,400				
Four Years Later		77,726	70,497	71,451	105,182	63,524	68,969					
Five Years Later		77,360	67,951	70,099	101,960	63,333						
Six Years Later		76,625	66,801	71,753	106,466							
Seven Years Later		76,098	66,582	71,544								
Eight Years Later		76,613	65,908									
Nine Years Later		76,716										
Gross Cumulative Paids												
Current Year		18,992	14,760	12,290	20,688	12,590	24,450	11,255	22,164	18,426	18,428	
One Year Later		48,654	37,189	32,600	40,925	30,105	39,021	30,406	47,604	52,717		
Two Years Later		62,740	52,890	44,171	66,001	39,907	54,268	40,314	66,451			
Three Years Later		69,823	57,576	50,876	71,367	48,089	60,616	51,131				
Four Years Later		70,334	60,466	56,334	75,734	55,419	61,362					
Five Years Later		71,585	62,442	63,154	86,384	57,116						
Six Years Later		73,811	64,121	66,716	95,909							
Seven Years Later		73,951	66,201	68,220								
Eight Years Later		76,005	67,415									
Nine Years Later		76,100										
Gross Outstanding Claims	114,656	616	(1,507)	3,324	10,557	6,217	7,607	19,269	44,617	65,686	81,183	**352,225**

Net Claims Development

As at 20 Feb 2021	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	2020/21 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	88,337	
One Year Later		75,871	82,941	79,382	89,177	62,130	60,514	69,494	88,638	107,650		
Two Years Later		72,121	78,981	75,771	86,718	63,089	65,527	68,412	89,591			
Three Years Later		72,398	72,803	74,238	84,848	60,642	63,323	67,446				
Four Years Later		69,688	70,459	71,146	84,045	59,082	62,729					
Five Years Later		69,880	67,913	69,808	83,002	58,483						
Six Years Later		69,092	66,763	71,424	86,411							
Seven Years Later		68,532	66,543	71,280								
Eight Years Later		69,005	65,869									
Nine Years Later		68,956										
Net Cumulative Paids												
Current Year		18,925	14,760	12,290	20,688	11,761	20,734	11,255	22,164	18,426	18,428	
One Year Later		47,007	37,189	32,523	40,925	29,234	33,237	30,363	43,936	52,717		
Two Years Later		57,753	52,852	43,908	57,014	39,027	48,477	40,213	55,685			
Three Years Later		63,052	57,538	50,612	62,106	47,141	54,414	51,031				
Four Years Later		63,270	60,428	56,071	65,056	51,068	55,176					
Five Years Later		64,452	62,404	62,890	75,390	52,625						
Six Years Later		66,573	64,083	66,453	80,735							
Seven Years Later		66,660	66,162	67,956								
Eight Years Later		68,573	67,376									
Nine Years Later		68,580										
Net Outstanding Claims	67,000	376	(1,507)	3,324	5,676	5,858	7,553	16,415	33,906	54,933	69,909	**263,443**

Note 16: Insurance & Other Payables

	Consolidated		Holding	
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
Amounts arising out of Insurance Operations	**2,812**	1,962	**2,786**	1,962
Amounts arising out of Reinsurance Operations	**237**	252	**237**	252
Purchase transactions of financial investments awaiting settlement	**25,764**	4,851	**-**	-
Accruals & Deferred Income	**4,715**	5,402	**4,283**	4,844
Other Payables	**1,873**	1,213	**1,862**	1,211
Intercompany	**-**	-	**28,458**	29,024
Total Insurance & Other Payables	**35,401**	13,680	**37,626**	37,293

Note 17: Deferred Acquisition Costs

	Consolidated		Holding	
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
As at 21 February	**570**	432	**570**	432
Acquisition costs written in the year	**10,644**	9,988	**10,644**	9,988
Acquisition costs earned in the year	**(10,648)**	(9,850)	**(10,648)**	(9,850)
As at 20 February	**566**	570	**566**	570

Note 18: 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 £15.4m (2019/20: £15.0m) 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 11, 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 19: 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 2021. The Ratio of 10.46% (2020: 10.41%) has been calculated in accordance with the schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements.

Appendix I: Policy Year Statements (Unaudited)

Class 5 – P&I Policy Year Statement

	Notes	Reserves US$'000	Closed Years US$'000	2018/19 Policy Year US$'000	2019/2020 Policy Year US$'000	2020/2021 Policy Year US$'000	Total US$'000
Year to 20 February 2021				460	5,055	101,081	
Year to 20 February 2020				3,349	100,089	-	
Year to 20 February 2019				89,821	-	-	
Total Earned Calls & Premiums				93,630	105,144	101,081	
Earned Reinsurance Premiums				(17,600)	(17,123)	(17,218)	
Net Earned Premium				**76,030**	**88,021**	**83,863**	
Net Claims Paid	**1**			(64,341)	(62,516)	(30,309)	
Net Operating Expenses	**2**			(13,377)	(13,723)	(11,995)	
Investment Income				14,041	20,309	19,058	
Balance available for Outstanding Claims		**145,685**	**102,725**	**12,353**	**32,091**	**60,617**	**353,471**
Allocation from Reserves at 20 February 2020			-	21,172	14,743	-	35,915
Net Insurance Liabilities			(94,877)	(33,841)	(54,201)	(66,258)	(249,177)
		145,685	7,848	(316)	(7,367)	(5,641)	140,089
Unrealised Losses on Investments & Property		(5,784)	-	-	-	-	(5,784)
Allocation from Closed Years at 20 February 2021		(5,476)	(7,848)	316	7,367	5,641	-
Undiscounted Policy Year Balances		**134,425**	**-**	**-**	**-**	**-**	**134,425**

Class 8 – FD&D Policy Year Statement

	Notes	Reserves US$'000	Closed Years US$'000	2018/19 Policy Year US$'000	2019/2020 Policy Year US$'000	2020/2021 Policy Year US$'000	Total US$'000
Year to 20 February 2021				48	261	11,687	
Year to 20 February 2020				302	11,903	-	
Year to 20 February 2019				10,910	-	-	
Total Earned Calls & Premiums				11,260	12,164	11,687	
Earned Reinsurance Premiums				(1,121)	(1,058)	(1,064)	
Net Earned Premium				**10,139**	**11,106**	**10,623**	
Net Claims Paid				(8,104)	(8,056)	(4,356)	
Net Operating Expenses	**2**			(2,089)	(2,067)	(1,949)	
Investment Income				812	1,212	1,209	
Balance available for Outstanding Claims		**12,498**	**4,350**	**758**	**2,195**	**5,527**	**25,328**
Allocation from Reserves at 20 February 2020			1,306	1,801	819	-	3,926
Net Insurance Liabilities			(3,639)	(1,489)	(2,633)	(6,505)	(14,266)
		12,498	2,017	1,070	381	(978)	14,981
Unrealised Losses on Investments & Property		(369)	-	-	-	-	(369)
Allocation from Closed Years at 20 February 2021		1,039	(2,017)	-	-	978	-
Undiscounted Policy Year Balances		**13,168**	**-**	**1,070**	**381**	**-**	**14,619**

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 2018/19 – 2020/21 has been determined on the basis of current provisional percentage shares. Final percentage shares may differ.

	2018/19 US$'000	2019/20 US$'000	2020/21 US$'000
Association's Share of Other Clubs' Pool Claims	9,564	8,006	3,679

Note 2: Net Operating Expenses

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

	CLASS 5 – P&I			CLASS 8 – FD&D		
	2018/19 US$'000	2019/20 US$'000	2020/21 US$'000	2018/19 US$'000	2019/20 US$'000	2020/21 US$'000
Exchange Adjustments	1,894	24	**(2,163)**	115	4	**(156)**
Admin Expenses	2,487	3,016	**3,929**	743	662	**678**
Brokerage & Commission	8,996	10,683	**10,229**	1,231	1,401	**1,427**
Total	13,377	13,723	**11,995**	2,089	2,067	**1,949**

Note 3: Net Outstanding Claims

	CLASS 5 – P&I				CLASS 8 – FD&D			
	Closed Years US$'000	2018/19 US$'000	2019/20 US$'000	2020/21 US$'000	Closed Years US$'000	2018/19 US$'000	2019/20 US$'000	2020/21 US$'000
Gross Claims Outstanding								
Retained	125,784	33,061	51,979	56,747	6,094	2,026	3,413	6,505
Pool	22,681	10,955	12,194	20,786	-	-	-	-
	148,465	44,016	64,173	77,533	6,094	2,026	3,413	6,505
Reinsurers' Share of Claims Outstanding								
Pool	(46,664)	291	-	(11,275)	-	-	-	-
Group XL/Hydra	(2,854)	-	-	-	-	-	-	-
Other	(4,070)	(10,466)	(9,972)	-	(2,455)	(537)	(780)	-
	(53,588)	(10,175)	(9,972)	(11,275)	(2,455)	(537)	(780)	-
Net Claims	94,877	33,841	54,201	66,258	3,639	1,489	2,633	6,505

Appendix II: Release Calls (Unaudited)

At the meeting on 27 April 2021, the Board reviewed the Open Policy Years and Release Call rates and reached the following decisions:

	Class 5 – P&I	Class 8 – FD&D
2018/2019	5.0% of the Annual Call	5.0% of the Annual Call
2019/2020	12.5% of the Annual Call	12.5% of the Annual Call
2020/2021	15.0% of the Annual Call	15.0% of the Annual Call
2021/2022	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:

2016/2017	Nil (Closed)
2017/2018	Nil (Closed)
2018/2019	5.0% of the Annual Call (as stated above)
2019/2020	12.5% of the Annual Call (as stated above)
2020/2021	15.0% of the Annual Call (as stated above)

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