June 2023

Update: 2022/23 Financial Year Result & Overview

Summary

- *Attritional claims experience at the lowest level since 2018/19 reflecting deductible increases and a reduction in Covid-related claims.*
- *Positive performance from the FD&D and War Risks Classes and fixed premium lines of business.*
- *Adverse run of Pool claims at odds with the Club's long-term experience and statistical expectations.*
- *Turbulence in the financial markets led to a challenging year for the investment portfolio with a return on invested assets and cash of -3.9%.*
- *Financial Year deficit of US$50.5m and combined ratio of 128%. Free reserves of US$113.5m as at 20 February 2023.*
- *Positive renewal outcome in February 2023, including rating and deductible increases and de-risking of the book.*

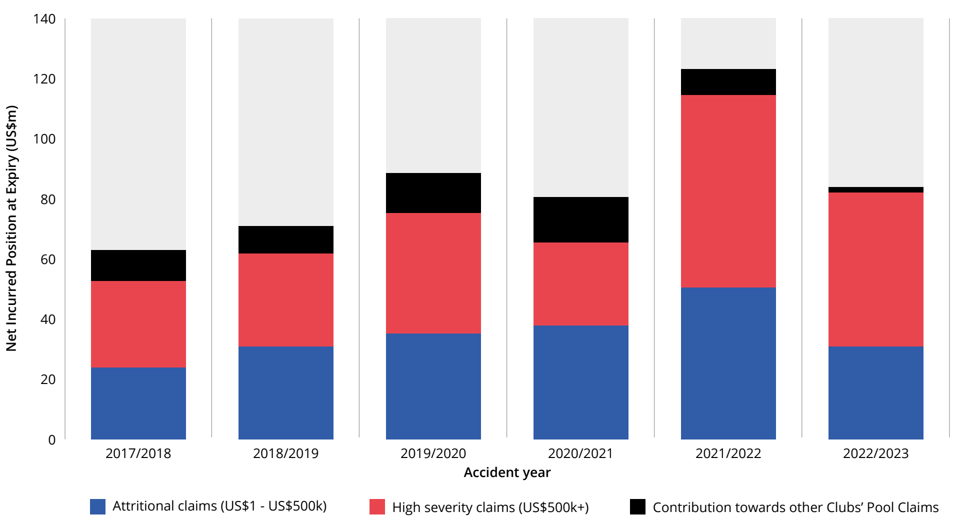
This update summarises the drivers and result for the 2022/23 financial year and other recent developments in the Club's business. Further information will be provided in the Annual Report & Financial Statements which will be published in due course.

Operating Performance and Financial Position

Gross earned premium income increased and the average rating of the mutual book strengthened following action taken at the February 2022 renewal to transition rates as well as deductibles to more sustainable levels, and to improve the Club's risk profile. The chart below illustrates the positive impact of these measures on the Club's 'day to day', attritional claims outturn, which was the lowest since 2018/19. A drop in Covid-related claims was a factor, but reductions in the cost of other claims reflect the effectiveness of our underwriters' ongoing attention to deductible levels, to mitigate the impact of inflation.

The Club's FD&D and War Risks Classes and fixed premium products generated positive returns. However, the result for the core mutual P&I book was heavily impaired by the cost of Pool claims brought by Members in what was a benign policy year for the IG pooling system generally. The Club incurred two such claims during 2022/23 – 50% of the Pool claims reported by all IG Clubs at expiry. Cost deterioration relating to other Clubs' Pool claims from prior years also weighed on the 2022/23 financial year result.

CLASS 5 P&I NET INCURRED POSITION AT EXPIRY

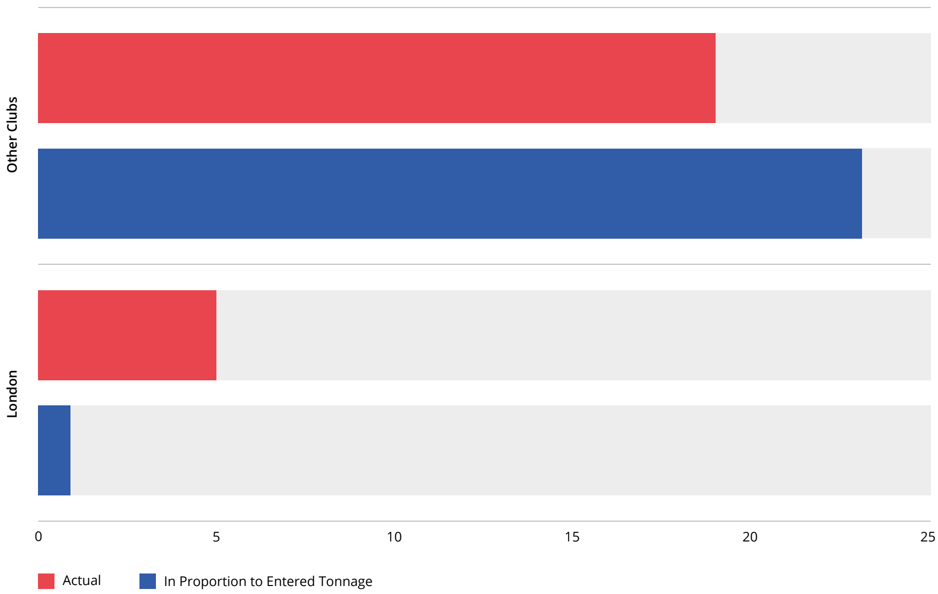


Many Clubs highlight the fortuitous nature and the sensitivity of their technical results to claims of sufficient severity to enter the Pool – concepts which are borne out by the London P&I Club's recent elevated experience. The chart to the right illustrates that in the last two policy years London incurred five Pool claims which was more than any other Club, irrespective of size. Had the 24 claims reported to the Pool as at 20 February 2023 for the 2021/22 and 2022/23 policy years been distributed across the 13 Clubs in proportion to Mutual P&I tonnage on risk, London's proportionate share would have been less than one Pool claim. Analysis of these claims underlines their random nature; and this is further illustrated by the fact that the Club incurred only four Pool claims in the six policy years prior to 2021/22.

2022/23 was a year like no other in recent memory for financial markets generally and bond markets in particular. The return on the Club's invested assets and cash for the year was -3.9%.

The result for the 2022/23 financial year was a deficit of US$50.5m and the combined ratio was 128%. Free reserves were US$113.5m as at 20 February 2023.

POOL CLAIM FREQUENCY – 2021/22 & 2022/23



February 2023 Renewal and Current Financial Year Update

At the renewal, there was a strong focus on the sufficiency of rating and deductible levels for each fleet, taking into account individual loss records, risk profiles and the part that all Members have to play in balancing the Club's underwriting results.

This approach included some further strategic de-risking of the book, while there were some instances where terms could not be agreed. However, there was strong support from the vast majority of our Members and the result was a successful renewal with an approximate 13.5% increase in rates on renewing business including the value of changes in terms through increased deductibles.

The Club's regulatory solvency coverage stands at an estimated 150% following an increase in approved ancillary own funds, as well as a favourable claims experience and small positive investment return in Q1 of the current financial year. The outcome of the renewal provides a much improved and robust base for the Club's delivery of expert service and strong support for all our Members and Assureds.

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