The London P&I Club

The London Steam-Ship Owners' Mutual Insurance Association Limited

Annual Report and Financial Statements for the year ended 20 February 2017

REGISTRATION NUMBER: 10341

The London Steam-Ship Owners' Mutual Insurance Association Limited

Annual Report and Financial Statements for the year ended 20 February 2017

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
Peter J. Goulandris
Triandros Corporation,
Nassau

Robert A. Ho
Fairmont Management Ltd.,
Hong Kong

John L. Harbor
Surrey, UK

Vassilis J. Laliotis
J. Laliotis Maritime Group,
Athens

Amnon Lion
Eastern Pacific Shipping Pte. Ltd.,
Singapore

John J. Raggio
Sealift LLC.,
New York

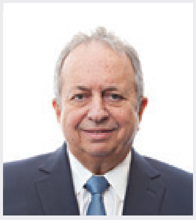
Sophocles N. Zoullas
Zenith Shipping LLC,
New York

Managers
Ian E. Gooch
A. Bilbrough & Co. Ltd.,
London
Appointed 20 February 2017

Anthony G. Jones
A. Bilbrough & Co. Ltd.,
London
Appointed 20 February 2017

Iain Paul
A. Bilbrough & Co. Ltd.,
London
Appointed 20 February 2017

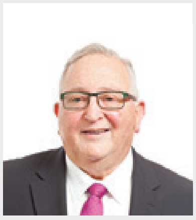
OFFICERS OF THE ASSOCIATION



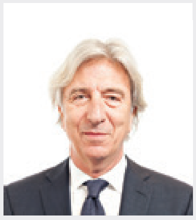
John M. Lyras
Chairman

Peter J. Goulandris
Vice Chairman

Robert A. Ho
Vice Chairman



Amnon Lion
Audit Committee
Chairman



Stamos J. Fafalios
War Risks Committee
Chairman

MEMBERS' COMMITTEE

Chairman
John M. Lyras
Lyras Maritime Ltd.,
London

Vice Chairmen
Peter J. Goulandris
Triandros Corporation,
Nassau

Robert A. Ho
Fairmont Management Ltd.,
Hong Kong

Unless listed above as a director or otherwise stated, all members of the Members Committee retired from the Board on 20th February 2017

Registered address
50 Leman Street
London
E1 8HQ

Rozainah Bt Awang
MISC Berhad, Kuala Lumpur
Appointed 13 July 2016

Peter J. Cowling
Wallem Ltd., London

John Dragnis
Goldenport Shipmanagement Ltd.,
Athens

Stamos J. Fafalios
Fafalios Ltd., London

John L. Harbor
Surrey, UK

Vassilis J. Laliotis
J. Laliotis Maritime Group, Athens

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

Amnon Lion
Eastern Pacific Shipping Pte. Ltd.,
Singapore

James L. Marshall
Berge Bulk (Singapore)

David M. Ofer
Zodiac Maritime Agencies Ltd.,
London

Vassilis Papageorgiou
Tsakos Group, Athens

John J. Raggio
Sealift LLC., New York

Nikolaos Savvas
Cosmoship Management S.A.,
Piraeus

Giangiacomo Serena
SAM International
Andromeda Shipping,
Monaco

Bendix Todsen
PASSAT Star Schiffahrtsges mbH,
Hamburg

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

Sophocles N. Zoullas
Zenith Shipping LLC,
New York

Huang Xiaowen
China Shipping (Group) Company,
China
Resigned 28 September 2016

Markus Hempel
Norddeutsche Reederei
H. Schuldt GmbH & Co. KG,
Hamburg
Resigned 1 August 2016

Chen Xin Chuan
COSCO (HK) Shipping Co. Ltd.,
Hong Kong
Resigned 20 February 2017


Vassilis J. Laliotis


Robert A. Ho


Nikolaos Savvas


John J. Raggio


John L. Harbor


Vassilis Papageorgiou


Giangiacomo Serena


John Dragnis

London P&I Club Members' Committee Meeting April 2017

CHAIRMAN'S REPORT

Dear Members,

In my report 12 months ago, I highlighted a pleasant reduction in the Association's claims, in terms of both severity and frequency. While not of the same magnitude, there was another encouraging claims outturn in the year now under review. This experience was one of the drivers of our positive operating result – a surplus of US$27.3m, which lifted the year end free reserves to US$188.0m; with a combined ratio of 97.9%. Undoubtedly, the result was supported by a benign claims environment – involving the pooling as well as the retention layers. However, there were also signs, especially during the second half of the year, that a controlled adjustment to our underwriting strategy, involving the spreading of the Member base for our mutual P&I and other lines of business, is bearing fruit. This is something which we look at further in the Strategic Report section.

Another component in the result was the positive performance of the Association's invested assets and cash holdings, which recorded a return of US$26.7m or 8.4%. This strong contribution, from an essentially unchanged asset allocation, reflects the risk appetite, discipline and vigilance of our quota share reinsurer in Bermuda.

These developments have had the effect of further strengthening our capitalisation, ensuring that the Association remains well placed to pursue its strategy of continuing to provide cost-effective, top class P&I, FD&D and War Risks support and service for all of our Members.

For many years, the Committee has benefited from the insights and contributions of participants drawn from a wide range of the Association's Members. However, the regulatory environment in which the Association operates has been changing and we – and other Clubs – have seen increasing regulator preference for the establishment of smaller statutory Boards. It was against such background that, as foreshadowed in my report last year, the Committee completed a detailed review of the corporate governance of the Association. As a result of this, proposals were made to the Membership for changes to the structure of our governance, involving the constitution of a new Members' Committee and a smaller Board, the latter, amongst other things, to devote detailed attention to statutory and regulatory matters. These proposals were approved at a General Meeting in early 2017 and the amended arrangements took effect from the commencement of the 2017/18 policy year. As part of the determination of the new structure, very careful consideration was given to striking an optimum balance between, on the one hand, our regulator's expectations of corporate governance best practice; and on the other hand the advantages which the Committee believes our Members derive from the active involvement of experienced and engaged senior shipping figures, elected from across our Member base. Considerable care was therefore taken to ensure that we achieved this outcome in the raft of changes to the Association's Articles, Rules and Terms & Conditions, as well as the Terms of Reference for the Board, Members' Committee and our various Sub-Committees, that give effect to the new structure. The aim is to ensure that the Association's approach to shipping and liability issues affecting our Members continues to be subject to broad and effective ship-owner input and perspective, through the Members' Committee; which will also work to support our longstanding focus on service and fairness across the Membership, in addition to providing challenge and support to the work of the Board.

During the year under review, the Committee considered the implications of a number of important political developments.

The partial relaxation of Iranian sanctions meant that the International Group's Sanctions Sub-Committee continued to be active, especially in the early part of the year, in developing an interim solution together with planning for a long term answer to the issues arising from the increased opportunities for Members to trade to Iran, but at a time when US primary sanctions remained in force, affecting US-domiciled companies participating on the Group's reinsurance programme and creating the risk of a shortfall in reinsurance recoveries. Another example arose from the result of the UK referendum on membership of the European Union. The ramifications and the form that Brexit may eventually take are starting to become clearer and contingency planning is required. The Committee has therefore been examining the implications and options for the Association. There are various restructuring alternatives and the establishment of an additional presence in an EU country may be required. The subject is one which we will be continuing to focus on, to ensure the smooth and secure functioning of the business throughout this period of change.

The Committee follows developments in substantial claims involving the Association's Members with particular interest – and one such case, which dated back to an incident in 2010, was resolved during the year under review. It involved the grounding of a bulk carrier on Douglas Shoal, within the Great Barrier Reef Marine Park, and caught our attention not only because of the high-profile nature of the casualty, but also because of the serious questions that subsequently emerged over the merits of and the basis for the significant claims that were brought against the Members. Quite apart from some profound differences in the views of experts over the state of the shoal and the best remedial measures, the Members and our Managers were put under concerted local pressure to agree settlement at levels well in excess of the ship's limitation fund. Having determined, with the Member's legal team, that there were no good grounds to depart from the application of a single limitation fund to the casualty, there was staunch resistance to the claimants' assertion that liability should be subject to the equivalent of three limitation funds and, in the event, the case proceeded to trial last autumn. During the early days of the hearing, our Managers maintained a settlement dialogue with the claimant authorities and, as the witness evidence developed in favour of the Members, their recovery expectations finally started to modify. Shortly thereafter it proved possible to agree a settlement on terms that were much more in line with our assessment of the Members' liability, than the excessive level which the claimants had previously sought. The outcome was another illustration of the important and detailed work of our Management's experienced and high-calibre claims team coming to the fore.

During the year, Markus Hempel, Chen Xin Chuan and Huang Xiaowen stepped down from the Committee. We thank them for their service – in particular Markus for his work on our FAC and Strategy Sub-Committees – and they have our wishes for all good fortune in the future. Meanwhile, we were delighted to welcome a new Committee member, Rozainah Awang of MISC Berhad.

John M. Lyras
Chairman
25 April 2017

STRATEGIC REPORT

CHIEF EXECUTIVE'S INTRODUCTION

As the Chairman has highlighted, there was a strong bottom line result for the 2016/17 financial year. The claims picture was benign, if not as favourable as for the prior year, and notable features included a much lower cost of claims involving the Pool, as well as a reduction in retained claims in the band between US$500,000 – US$1.0m. We consider these and other aspects of the 2016/17 claims experience in more detail in the P&I section of this Report.

While the claims outcome for the year now under review was again pleasing, we know that the P&I industry can be subject to a more testing claims environment – so our planning and work aim to ensure the Association's financial resilience, for when the recent conditions change. In that particular regard, the 2016/17 result has increased the free reserves and the finances have further strengthened, with the positive return from the investment portfolio playing an important role. This is a part of the business which we review in the Investments section.

At the same time, work has continued to strengthen the Association's technical performance. The recent combined ratios have been better than we targeted, largely reflecting the improved claims outturns over this period. There are pressures from other quarters though, not least the challenging state of the shipping markets; and it is clear that the positive effects of various recent underwriting measures are also playing their part in the enhanced technical results. These include the increased focus on deductible structures, levels and terms – which have had a beneficial impact on the cost of attritional claims. There has also been a careful broadening of the Association's mutual underwriting strategy, as well as increased flexibility and growth in our covers for charterers and now the owners of smaller ships. These are matters at which we look further in the Membership & Underwriting section.

During 2016/17, we maintained and built on the high level of engagement that the Association enjoys with its Members and other partners, outside of and in addition to our day-to-day work. Seminars, workshops and tailored programmes for individual Members were held in shipping centres including Antwerp, Athens, Dalian, Hamburg, New York and Singapore. Towards the end of the year, there was a successful road-show of presentations and other events in Shanghai, Guangzhou and Hong Kong. Further, our Piraeus office continued to host its series of P&I presentations for local Members and other friends throughout the year, while we continued our programme of regular in-house lunchtime seminars in our London office, at which we were delighted to be joined by a number of Members and brokers. Many of these events contain a strong loss prevention dimension; and a further initiative in this area, during the year, involved our participation with Class, Bureau Veritas, and consultants, TMC, in the production of guidance on the reduction of the risk of liquefaction, for ships that carry cargoes which may liquefy. The booklet aims to provide practical advice to masters, ship-owners, shippers and charterers, in respect of a risk which has the potential to give rise to catastrophic consequences. It is an important publication which we were very pleased to contribute to.

We at the London P&I Club's Management are grateful for the support of all of our Members and business partners.

Ian Gooch
Chief Executive

The 2016 built, 34,323 gt bulk-carrier, ***Aquagemini,*** is entered in the London P&I Club by Carras (Hellas) SA.

Triona Dove
Management, London

Steve Roberts
Director, London

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's operating result for the year ended 20 February 2017 was a surplus after tax of US$27.3m. This excellent overall performance was underpinned by positive results from both technical and non-technical operations in the year.

A combined ratio of 97.9% for the financial year just ended represented a favourable outcome when measured against both the Association's average combined ratio for the preceding five-year period and the target ratio set by the Board. As expected, there was no repeat of the exceptional 82.5% combined ratio achieved in the 2015/16 year. Net earned premiums were US$4.7m down year on year, principally due to the effects of churn, and net incurred claims US$9.3m higher. Despite incurred claims costs increasing in 2016/17 they remained below the level forecast for all product lines combined, with the low level of claims falling on the International Group Pool being of particular note and something that all International Group Clubs will have benefited from.

As mentioned in last year's Report, lower asset prices prevailing at the 2016 year end date served to improve the prospects for a strong positive investment performance moving forwards and this was indeed how things unfolded in 2016/17. Even allowing for temporarily depressed valuations at inception of the year under review, the US$26.7m return net of associated investment management fees exceeded expectations. A tension of sorts exists between the Association's annual financial reporting cycle and its longer term investment horizon, and this comes to the fore when periods of short term financial market volatility coincide with the year end date. These periods of volatility have no lasting significance to the Association's finances over the longer term, yet can be something of a distraction when the annual results are announced. The Association's investment loss in 2015/16 and subsequent strong gain in 2016/17 equated to a 3% annualised investment return for the two-year period ended 20 February 2017, very much in line with expectations.

The Association's financial strength was already robust heading into the year under review. The addition of the 2016/17 year's US$27.3m operating surplus has further bolstered its balance sheet, lifting free reserves to US$188.0m at 20 February 2017. Notwithstanding the Association's improved technical performance in the last two years and a prevailing level of capital which comfortably exceeds its regulatory capital requirement, the Board and its Management are acutely aware of the need to maintain at all times an appropriate balance between premiums, claims and anticipated investment income to avoid capital erosion; refinements to the Association's underwriting strategy, to help strike such a balance, are looked at elsewhere in this Report. Premium levels have fallen in recent years in tandem with falling claims costs, however our expectation is for the current benign claims environment to give way at some point to something more representative of the longer term historic trend, at which time there will also be a need for rating levels to adjust accordingly.

MEMBERSHIP & UNDERWRITING

During the year under review, there were attachments of owned mutual tonnage totalling 5.4m gt. These entries were drawn from existing Members, together with new Members from markets and sectors in which the Association's marketing work has been stepped up in recent years. This work has gone hand in hand with a measured broadening of underwriting strategy in respect of ship types, trades and sizes; accompanied by the focus on policy terms, including deductible structures and levels, noted 12 months ago. A key objective is to support the Association's financial strength with improved technical results and – while the recent claims environment will have played the major part – the signs are that these and other tightly controlled underwriting refinements are also contributing, as performance continues to move in the right direction.

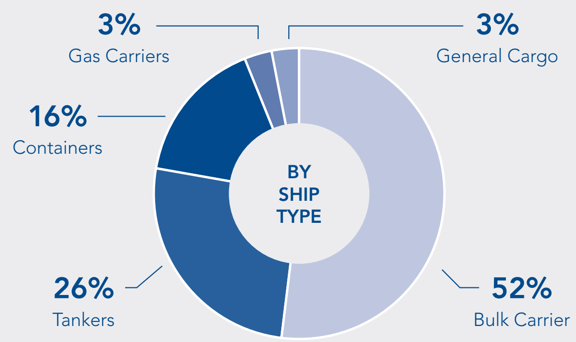
Harry Wathen
Management, London

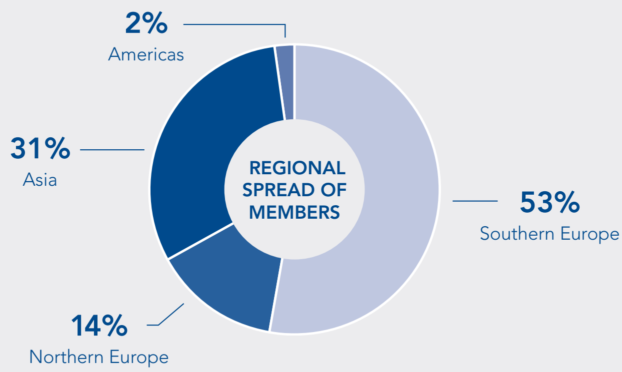
During the year (and especially during the first six months) there was also a high level of routine terminations, as Members continued to face depressed trading conditions in most sectors. An effect of such 'churn' is to put pressure on premium volume; while from a tonnage perspective, after developments at the 2017 renewal (see below) and in the charterers' book of business (where there was growth during the year, particularly from accounts based in the Far East), the various movements meant that the combined entry stood at 54m gt.

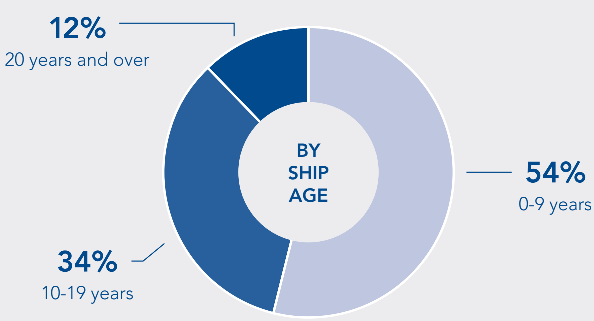
There was also a solid first full year of trading for the P&I facility for the owners of smaller ships which the Association launched in late 2015, with fleet entries obtained from owners based in countries including China, Indonesia, Russia, Singapore and Turkey. Other developments included an adjustment to the limit of the cover which was increased to US$500m with the support of the reinsuring underwriters at Lloyd's. While the facility remains in its early days, progress has been encouraging; indeed its availability has also helped to increase the Association's visibility in several markets in which its profile had hitherto been lower.

The composition of the Association's Membership is illustrated by the pie charts opposite:

As indicated, underwriting strategy is something which has been and remains subject to close attention, reflected by the developments in the mutual and other lines of business referred to above – on which the underwriting team will be striving to build. In that regard, the Association saw a busy and, at times, tough 2017 renewal period. There were two terminations of entries following instances of corporate consolidation and management changes at the fleets concerned, and several entries for which renewal was declined by the underwriters for operational reasons. At the same time, the overall Member retention rate was very high, and additional entries were placed with the Association from owners based in Germany, Greece, Hong Kong, Singapore, the UK and elsewhere. Moreover, there were entries from 10 new mutually entered fleets and from nine new charterers' accounts, the latter helping to increase the Association's presence in markets including India, Qatar, Russia and Ukraine.







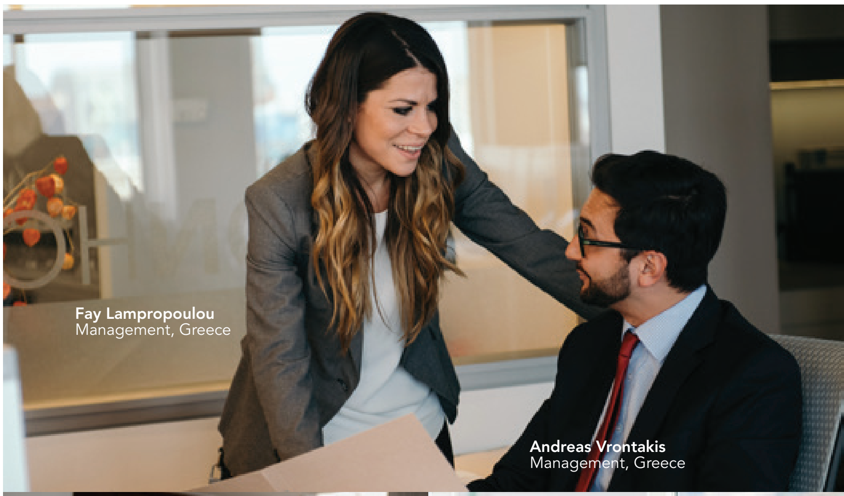
CLASS 5 – PROTECTING & INDEMNITY CLAIMS

A theme developed in this section of the 2016 Annual Report was the stark contrast between the benign claims experience for the 2015/16 policy year and the significantly more expensive 2014/15 year. The analysis highlighted that the year-end net incurred claims figures for 2015/16 were lower than any recent policy year.

Relatively early in the 2016/17 policy year, the Managers responded to a grounding of a bulk carrier on a rocky shoreline in Mauritius. The extent of the damage to the ship, the exposed nature of the grounding position, the quantity of bunkers onboard and the proximity of areas of significant environmental sensitivity combined to make clear from early in the case that the incident would give rise to claims in excess of the US$10m Club retention. As would be expected, the Managers played a key role in organising and directing the response, with the principal focus being the avoidance of the severe environmental impact that would have resulted from the bulker breaking up on the shore. The operation concluded with the notable success of the badly damaged ship being refloated and towed away. The gross claims, principally in respect of SCOPIC liability to the salvor, are currently expected to be around US$15m.

With an incident of that nature in the first half of the year, the year end results were particularly pleasing. Net incurred claims on expiry of the 2016/17 policy year were less than US$2m higher than the comparable figure, considered to be exceptionally low, on expiry of the 2015/16 policy year, with lower contributions to other Clubs' Pool claims in 2016/17 largely offsetting higher retained claims costs.

The graph below illustrates the G.A. & Salvage gross incurred claim values and file count on expiry of recent policy years.



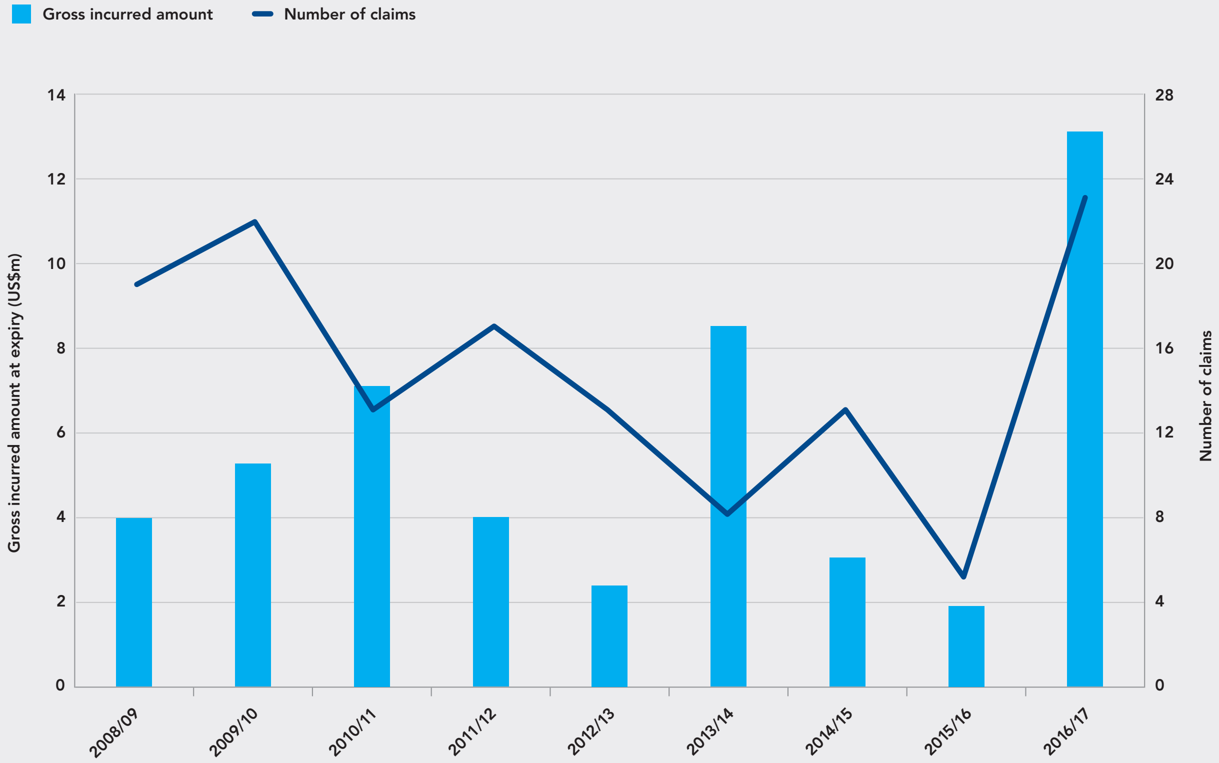
Fay Lampropoulou
Management, Greece

Andreas Vrontakis
Management, Greece

Derek Shum
Management, Hong Kong

Rachel Bellsham-Revell
Management, London

CLASS 5 P&I G.A. & SALVAGE CLAIMS AT EXPIRY



The sharp rise in the file count, from just five incidents in 2015/16 to 22 in the policy year just expired, merits close analysis. Interestingly, only four incidents are expected currently to exceed the attritional level (up to US$100,000). All four of those incidents are groundings which can be attributed to navigational issues. But the lower value GA & Salvage files are dominated by incidents attributable to engine room problems, principally main engine breakdowns. There is no obvious common cause within this class of claims but the claims experience is, as always, reviewed jointly by the claims and loss prevention departments so that any adjustments to the Ship Inspection programme can be made promptly.

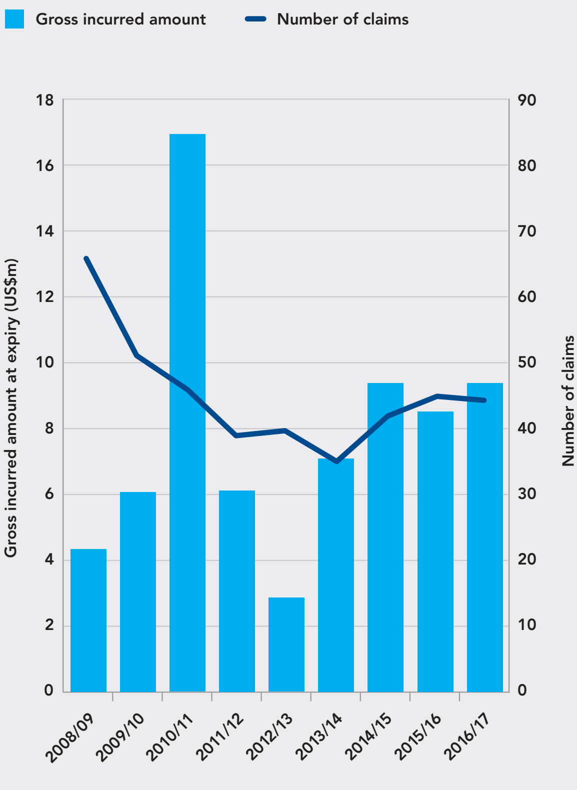
On expiry of the 2016/17 policy year, there were a total of six claims expected to fall in the high severity band – ie claims of US$1m and over. Of those six claims three were collision claims.

The left hand graph below shows the very slightly reduced file count and modest increase in gross collision claim costs in 2016/17 when compared to 2015/16 – but, as can be seen, the policy year just expired cannot be regarded as an expensive year for collision cases. The element of chance in the gross claim costs is illustrated by the fact that for the second successive policy year the most severe collision happened to involve a ship entered on terms which exclude cover for most collision liabilities. As was the case in 2015/16 the most significant collision, in terms of damage to the other ship, was an incident in Chinese waters in which the other ship required extensive salvage assistance and incurred significant spill response costs.

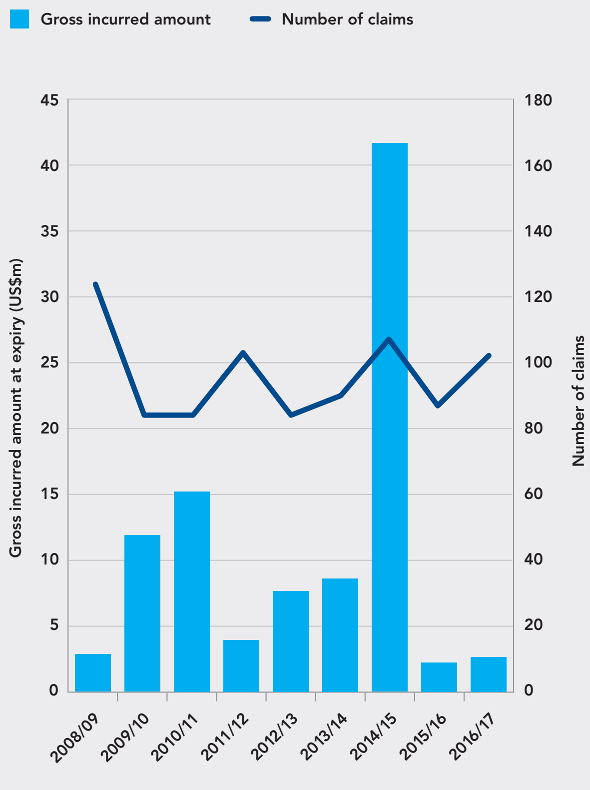
Finally, as is always the case when analysing a strong set of claim figures, a certain amount of attention has to be paid to what is missing from the claim costs. In previous years, the Association has handled some very large Fixed and Floating Object (FFO) claims. For example, the 2014/15 policy year featured two high severity FFO claims that were expected, on expiry, to exceed the relevant Club retention.

But the common experience of 2015/16 and 2016/17 can be seen from the right hand graph below. Although the file count remains relatively high, the gross cost of these claims is extremely modest. In fact, more than half of the files opened are expected to give rise to no claim on the Association. One of the factors involved appears to be frustratingly widespread attempts by port authorities to advance claims for "damage" that is essentially trivial. A theme appears to be an attempt to transfer the costs of maintaining fenders to the port's customers. Where appropriate, examples of such behaviour are escalated to the International Group's Claims Co-operation Sub-Committee.

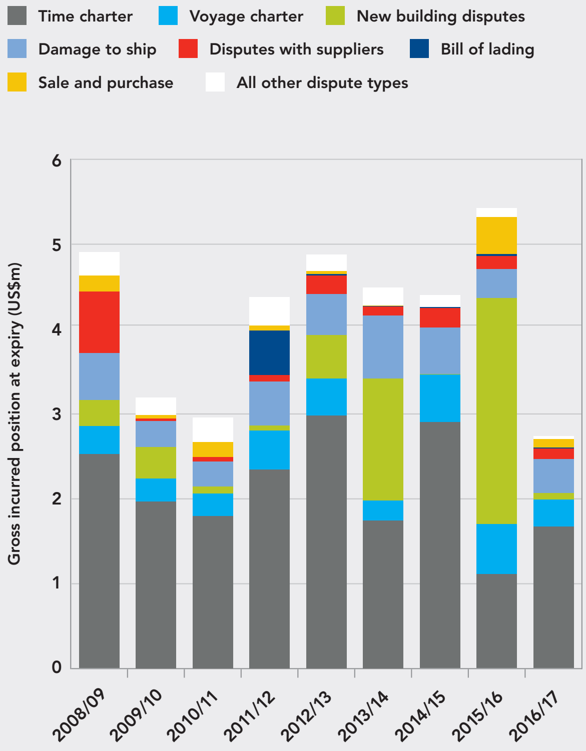
CLASS 5 P&I COLLISION CLAIMS AT EXPIRY



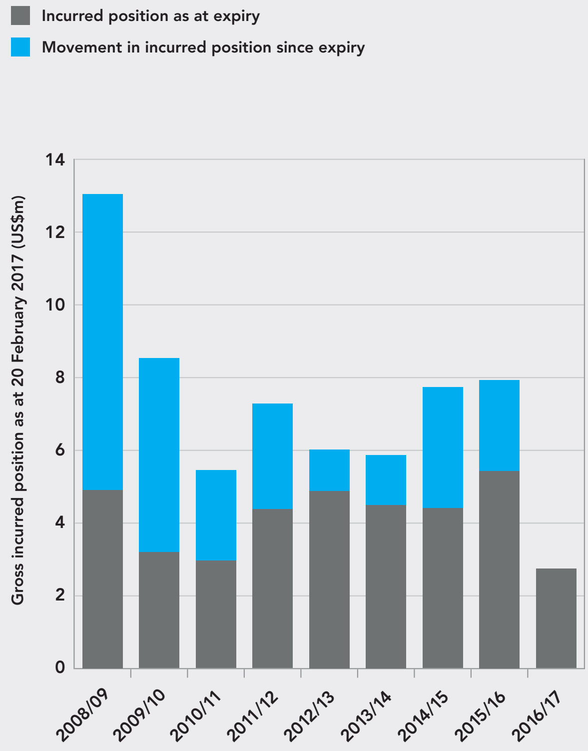
CLASS 5 P&I FIXED & FLOATING OBJECT CLAIMS AT EXPIRY



CLASS 8 GROSS INCURRED POSITION AT EXPIRY



CLASS 8 FD&D CLAIMS AND COST DEVELOPMENT



CLASS 8 – FREIGHT, DEMURRAGE & DEFENCE CLAIMS

The 2016/17 policy year saw a resumption to the steady increase in file count after last year's unexpected decrease. This was almost entirely due to an increase in the number of time charter disputes, likely due to the necessity to maximise financial returns in a market where margins remain tight, although the number of disputes is not disproportionate to the number of ships insured in this class. However, the gross incurred at expiry is the lowest it has been for six years and approximately 50% lower than in the last policy year, despite both the file count increase and an increase in the number of ships on risk for the sixth straight year.

The substantial decrease in the gross incurred cost at expiry is explained almost entirely by the absence of any substantial new building disputes, as this category had accounted for a material proportion of cost in the previous policy year. This has resulted in the lowest figure for the new building category for six years but it is important to note this does not at this stage suggest any particular trend that can be relied upon. The claims experience over six years and beyond shows no discernable pattern, whether driven by the state of the market or other factors, as to how this category might develop in the future; the sums at stake coupled with the usually complex technical issues mean that, where a significant issue arises, the costs are likely to be substantial and incurred rapidly.

Although the number of claims in the time charter disputes category increased to the highest number in six years, the expected costs in this category on expiry, whilst also showing an increase, were the second lowest in that period (the 2015/16 year being unusually low). Given the steady increase in the number of ships insured over that period, the relatively low expected cost is a welcome development. The biggest time charter claim (and indeed the biggest claim in any claim category) in the 2016/17 policy year is a dispute over bunker quality; whilst the costs are significant, they are in line with those expected for this type of dispute, as are the issues involved. As in the previous policy year, the trend was towards lower value disputes, with proportionately reduced external costs.

As to the voyage charter category, the gross incurred cost was also significantly reduced, despite both the number of claims being broadly the same as the previous policy year and the increase in the number of entered ships. Unsurprisingly, four of the top 10 disputes in this category involved demurrage/detention, with the depressed market rate for most types of ship translating to lower claim values, with proportionately low costs.

After last year's sharp increase in the costs incurred on sale and purchase disputes, a category which had seen almost no expenditure in the previous three policy years before that, the gross incurred fell by 80% despite a similar number of files as the previous year. As with new building disputes, such marked fluctuations are to be expected in a category where the disputes involve a high value asset, which can result in significant external costs. Activity involving disputes with suppliers slightly increased in 2016/17, although the gross incurred fell by about 30%. The one category that bucked the trend of decreasing cost is damage to ship, even though there was a small decrease in file numbers. The damage to ship claim type is most frequently used to cover the FDD issues arising from pursuing a loss of use claim following a collision. The P&I review of the year includes a comment on the fortuity of the ship involved in the most significant collision case of the policy year being entered on terms which exclude most collision liabilities. The ship was not entered for FDD cover either, which has been helpful for the damage to ship claim costs. The modest increase in damage to ship claim costs is in part a result of several incidents in which entered ships are struck while at anchor or berthed by ships making way. In such circumstances, the P&I liability is usually zero or minimal but some external costs are covered by FDD.

As to the development of previous policy years, once again there has not been disproportionate post expiry movement, which continues the welcome trend developing from the 2012/13 policy year. Whilst it is a further endorsement of the prudent policy of early identification and realistic reserving of disputes that have the potential to incur significant cost, aimed specifically at diminishing the risk of significant post expiry movement, the inherently unpredictable nature of FDD disputes makes it impossible to rely on this as a trend.

INVESTMENTS

Financial markets had experienced a sharp sell-off immediately prior to the commencement of the year under review. Since then, however, global economic conditions have steadily improved and risk assets have recovered, all at a time when financial markets have faced significant political surprises and uncertainty in the US and UK.

Several factors helped to improve investor sentiment, but the role of Central Banks was again crucial. At the start of 2016, the Federal Reserve was forecasting four rate hikes during the year but, as growth and deflation fears escalated, it quickly postponed further policy normalisation. The Fed had to wait until December before it was able to raise rates again. Together with continued monetary support there has been a clear pivot towards fiscal expansion, providing an additional impulse to growth. The recovery of oil was also important in stabilising economic conditions. Brent Crude closed the financial year above US$56/barrel, having been trading at under US$35/barrel 12 months earlier.

The recovery in financial markets and investor sentiment has been cemented by improving economic conditions. After stabilising in the first half of 2016, economic data has consistently surprised to the upside. Indicators for growth and inflation in all major economies have shown improvement, most notably in manufacturing. The recovery in oil and commodity prices has helped emerging market exporters get back to growth and, for the first time in several years, growth appears synchronised across the developed and emerging worlds.

In June, the UK's referendum vote to leave the EU caught financial markets by surprise. Looking beyond the immediate shock, however, equity markets quickly stabilised and indeed moved higher in the UK, benefiting from the devaluation of Sterling. The Bank of England acted quickly to protect the economy: cutting rates by 25bps; restarting its programme of QE and opening up lending facilities to banks. In the months that followed, the UK economy proved resilient and defied fears of economic turmoil.

In November, Donald Trump's Presidential election victory initially unsettled markets but, once again, this proved to be very short-lived with equities quickly retracing losses and staging a rally as investors positioned for a possible boost to US growth and inflation from campaign pledges to cut taxes, increase infrastructure spending and roll back regulation. While the reflationary trend was evident in data well before the election, Trump's victory galvanised investor sentiment and completed the journey from rising economic risks at the start of the 2016 calendar year to reflationary optimism at the end.

Jim Chan
Management, Hong Kong

Simon Leslie
Management, London

High grade fixed income assets are the main asset class within the Association's investment portfolio and the reflationary signs referred to above which emerged in the latter part of the year made for a challenging investment environment. Nevertheless, it was in this space that the Association's chosen fund managers performed best relative to their benchmarks and they each played their part by delivering meaningful positive returns for the year. The Association's substantial capital base relative to its size affords it the flexibility to maintain a controlled exposure to risk assets, with an average 22% allocation to equities in the year under review. Strong returns from this asset class helped lift the overall return for the year on invested assets and cash to a more than creditable 8.4%.

REINSURANCE

As one of the 13 Clubs which comprise the International Group of P&I Clubs, the Association and its mutual Members benefit from the International Group's Pooling and General Excess of Loss reinsurance arrangements. For the 2017/18 policy year, the individual Club retention remains at US$10m, with claims from this level up to US$100m, plus a 30% share of the first US$500m layer of the General Excess of Loss programme, being retained by the Pool and shared amongst the 13 participating Clubs. The Group's reinsurers provide cover for the remaining 70% share of the first US$500m layer and for 100% of the risk from US$600m to US$3.1bn. Clubs continue to be reinsured by their respective Hydra Cells for their Pool claim exposure in excess of US$30m on a per event basis.

The Association further purchases reinsurance within the US$10m Club retention in order to bring its underwriting risk exposure into line with its appetite for this this category of risk. Against a background of a softening premium base for mutual P&I and a corresponding need to obtain the best possible reinsurance terms, the Association elected to make one change to its panel of reinsurers for 2017/18. The Association's range of non-mutual P&I and FD&D product offerings have their own tailored reinsurance programmes as the risks covered are not eligible for Pooling as part of the Group's claims sharing mechanism.

REGULATORY

Although the Solvency II Directive came into effect on 1 January 2016, following a long and at times challenging period of preparation, the process since of embedding all the requirements of the Directive into the Association's business processes has been no less onerous.

The Association's first wave of full Solvency II annual reporting under Pillar 3 will be based on the 2016/17 financial year end data presented in this Annual Report. The new reporting regime requires significant quantities of financial data and narrative reporting, both privately to the Association's prudential regulator, the Prudential Regulation Authority (PRA), but now also some of which is publicly available.

In July 2017, we will prepare our first Regulatory Supervisory Report (RSR), a private report to the insurance supervisor which is not disclosed publicly. Firms must submit this report in full at least every three years and in summary every year. The RSR includes an extensive range of both qualitative and quantitative information.

At the same time the Association will also be required to publish its first Solvency & Financial Condition Report (SFCR) which is an annual public disclosure detailing significant amounts of information about the business and performance of the Association, systems of governance and risk profile. This new Solvency II report is in addition to the information already publicly disclosed through this Annual Report.

Tony Shiafkou
Management, London

Dan Sibthorpe
Management, London

Cassie Hamman
Management, London

Ben McKeith
Management, London

We have previously commented on the importance of the supplementary call mechanism for a mutual P&I Club business model. Although all clubs hope they never have to utilise it, it is nevertheless an important tool should a club ever find itself suffering severe financial stress or in danger of breaching regulatory capital requirements. The right to count at least part of this "off balance sheet" capital towards regulatory capital has long been recognised by regulators and has been carried over from the previous Solvency I regime into Solvency II. Known in Solvency II parlance as "Ancillary Own Funds" it is subject to a rigorous regulatory approval process. In common with other International Group Clubs, the Association received such approval in February 2016 for a period of 12 months. It is pleasing to report that a new approval was granted in February 2017 but this time valid for a 36-month period expiring in February 2020.

As mentioned by the Chairman in his report, there has been an increasing focus from our prudential regulator, the PRA, on the governance of insurers and other financial services firms and it was against this background that a review of the Association's governance arrangements was conducted last year. This resulted in the proposals for reform put to the Membership at the General Meeting in January this year and which came into effect at the start of the new P&I year. Similar changes have also been made, or are expected to be made, by other clubs regulated in the UK and elsewhere.

The Chairman has also referred to the result of the UK referendum on membership of the European Union, so-called Brexit, and its implications for the Association. As the Brexit process gathers pace, it appears increasingly likely that we will lose the "passporting" rights through which European flagged ships have been underwritten by the Association from London since the Third Non-Life Insurance Directive came into effect in 1992. There are a number of business models available to us which will allow us to retain access to EEA markets as an insurer established in a "third country". The leading option is the creation of a subsidiary in an EEA jurisdiction from which to continue writing EEA business on a passporting basis, this subsidiary being subject to local/EU regulation of course. It is disappointing therefore that in such a scenario the Association will find itself having to deal with yet another regulator, with all the attendant cost and resource implications.

Contingency planning is well underway and we have prepared a shortlist of potential jurisdictions from which we could write EEA business, and our investigations are continuing as we attempt to identify which of these might best suit our requirements, taking all relevant factors into consideration. Once a decision on the preferred jurisdiction for a subsidiary has been made by the Board, the process of applying for authorisation will commence, with the intention that it will be ready to write business at the February 2019 renewal.

INTERNATIONAL GROUP

The International Group of P&I Clubs not only monitors and supervises the operation and reinsurance of the claims pooling arrangements, but it also acts as the vehicle through which the Pool can be protected from potentially damaging external and even internal effects, as well as enabling the collective addressing of other issues which are of importance to the industry as a whole. Hence, the Group continues to be of great importance to the Association, which therefore contributed actively to its affairs during the year, with members of management participating in various sub-committees and working groups that were undertaking the more detailed work.

The Chairman has already referred to some of the primary subjects addressed by the Group during the year, and information on others is detailed in its own Annual Review, which can be found on the Group's website.

PRINCIPAL RISKS & UNCERTAINTIES

A description of the Principal Risks and Uncertainties facing the Association is set out at Note 3 to the Financial Statements.

Directors' Report

Company Registration: 10341

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.

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

John M. Lyras	Peter J. Goulandris	Amnon Lion

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

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

Amnon Lion	John L. Harbor	Bendix Todsen	Nikolaos Savvas
Sophocles N. Zoullas	Peter J. Cowling	Robert A. Ho	

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.

Information regarding financial instruments, principal activities, principal risks and uncertainties, and future developments is set out in the Strategic Report.

J.M. Lyras
Chairman
25 April 2017

Notice of Meeting

Notice is hereby given that the one hundred and forty first Annual General Meeting of the Members of The London Steam-Ship Owners' Mutual Insurance Association Limited will be held at The Westin Bund Center Hotel, 88 Henan Central Road, Shanghai 200002, China at 12 noon on Wednesday 18 October 2017 or as soon thereafter as the meeting of the Board terminates, for the following purposes:

1. To receive and consider the Financial Statements for the year ended 20 February 2017 and the reports of the Directors and Auditors.
2. To elect Members of the Board and the Members' Committee.
3. To appoint Auditors and fix their remuneration.
4. To transact any other ordinary business of the Association.

By Order of the Board
A. Bilbrough & Co. Ltd.
25 April 2017

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 Auditors' Report to the Members of the London Steam-Ship Owners' Mutual Insurance Association Limited

We have audited the financial statements of The London Steam-Ship Owners' Mutual Insurance Association Limited for the year ended 20 February 2017 which are set out on pages 21 to 39. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements
In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and the Association's affairs as at 20 February 2017 and of the Group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the 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.

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

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

Thomas Reed, Senior Statutory Auditor
For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB
26 April 2017

Consolidated Statement of Comprehensive Income by Class for the year ended 20 February 2017

	Note	TOTAL 2017 US$'000	TOTAL 2016 US$'000	CLASS 5 – P&I 2017 US$'000	CLASS 5 – P&I 2016 US$'000	CLASS 7 – WAR RISK 2017 US$'000	CLASS 7 – WAR RISK 2016 US$'000	CLASS 8 – FD&D 2017 US$'000	CLASS 8 – FD&D 2016 US$'000
Technical Account – General Business									
Earned Premium, Net of Reinsurance:									
Calls & Gross Premiums		**104,002**	110,072	**93,667**	98,474	**59**	197	**10,276**	11,401
Reinsurance Premiums		**(19,927)**	(23,343)	**(17,877)**	(21,150)	**(9)**	(82)	**(2,041)**	(2,111)
Net Premiums Written		**84,075**	86,729	**75,790**	77,324	**50**	115	**8,235**	9,290
Change in Provision for Unearned Premiums:									
Calls & Premiums		**(1,111)**	-	**(1,042)**	-	**-**	-	**(69)**	-
Reinsurers' Share		**(254)**	673	**(254)**	673	**-**	-	**-**	-
Net Earned Premium	**4**	**82,710**	87,402	**74,494**	77,997	**50**	115	**8,166**	9,290
Foreign Exchange Gains/(Losses)		**(802)**	(422)	**(830)**	(409)	**-**	-	**28**	(13)
Allocated Investment Return transferred from Non-Technical account		**26,663**	(11,460)	**25,075**	(10,742)	**-**	-	**1,588**	(718)
Claims Incurred, Net of Reinsurance:									
Gross Claims Paid	**5**	**(139,268)**	(80,397)	**(131,087)**	(70,925)	**-**	-	**(8,181)**	(9,472)
Reinsurance Recoveries	**6**	**51,514**	4,131	**51,335**	2,517	**-**	-	**179**	1,614
Net Claims Paid		**(87,754)**	(76,266)	**(79,752)**	(68,408)	**-**	-	**(8,002)**	(7,858)
Change in Provision for Claims:									
Gross Amount		**33,170**	14,956	**32,017**	13,215	**-**	-	**1,153**	1,741
Reinsurers' Share		**(14,888)**	1,181	**(15,063)**	1,498	**-**	-	**175**	(317)
Net Change in Provision for Claims		**18,282**	16,137	**16,954**	14,713	**-**	-	**1,328**	1,424
Net Incurred Claims		**(69,472)**	(60,129)	**(62,798)**	(53,695)	**-**	-	**(6,674)**	(6,434)
Net Operating Expenses	**8**	**(11,542)**	(11,954)	**(10,118)**	(10,597)	**(25)**	(55)	**(1,399)**	(1,302)
Balance Carried to Non-Technical Account		**27,557**	3,437	**25,823**	2,554	**25**	60	**1,709**	823
Non-Technical Account									
Balance Transferred from Technical Account		**27,557**	3,437	**25,823**	2,554	**25**	60	**1,709**	823
Investment Income	**7**	**14,219**	21,776	**13,397**	20,498	**-**	-	**822**	1,278
Unrealised Gains/(Losses) on Investments		**14,778**	(30,755)	**13,877**	(28,903)	**-**	-	**901**	(1,852)
Investment Expenses		**(2,334)**	(2,481)	**(2,199)**	(2,337)	**-**	-	**(135)**	(144)
Allocation of Investments to Technical Account		**(26,663)**	11,460	**(25,075)**	10,742	**-**	-	**(1,588)**	718
Balance on Ordinary Activities before Taxation		**27,557**	3,437	**25,823**	2,554	**25**	60	**1,709**	823
Taxation Expense	**9**	**(252)**	(144)	**(238)**	(135)	**-**	-	**(14)**	(9)
Balance on Ordinary Activities after Taxation		**27,305**	3,293	**25,585**	2,419	**25**	60	**1,695**	814
Accumulated Reserves at 20 February 2016		**160,707**	157,414	**146,224**	143,805	**4,383**	4,323	**10,100**	9,286
Accumulated Reserves at 20 February 2017		**188,012**	160,707	**171,809**	146,224	**4,408**	4,383	**11,795**	10,100

There are no recognised gains and losses other than those included in the consolidated Statement of Comprehensive Income.
The notes on pages 25 to 39 form part of these Financial Statements.

Consolidated Statement of Financial Position by Class as at 20 February 2017

Company number: 10341

	Note	TOTAL 2017 US$'000	TOTAL 2016 US$'000	CLASS 5 – P&I 2017 US$'000	CLASS 5 – P&I 2016 US$'000	CLASS 7 – WAR RISK 2017 US$'000	CLASS 7 – WAR RISK 2016 US$'000	CLASS 8 – FD&D 2017 US$'000	CLASS 8 – FD&D 2016 US$'000
ASSETS									
Financial Investments	**11**	**353,776**	349,432	**332,486**	328,885	**2,950**	2,952	**18,340**	17,595
Investment Property	**12**	**15,168**	17,502	**14,258**	16,452	**-**	-	**910**	1,050
Reinsurance Assets	**14**	**92,583**	107,471	**89,324**	104,387	**-**	-	**3,259**	3,084
Insurance & Other Receivables	**13**	**15,726**	12,142	**14,407**	10,065	**-**	42	**1,319**	2,035
Reinsurers' Share of Unearned Premium	**14**	**419**	673	**419**	673	**-**	-	**-**	-
Deferred Acquisition Costs		**126**	-	**116**	-	**-**	-	**10**	-
Cash & Cash Equivalents		**24,118**	18,259	**16,063**	10,586	**1,564**	1,453	**6,491**	6,220
TOTAL ASSETS		**501,916**	505,479	**467,073**	471,048	**4,514**	4,447	**30,329**	29,984
LIABILITIES									
Insurance Liabilities	**14**	**298,867**	332,037	**281,395**	313,412	**-**	-	**17,472**	18,625
Unearned Premium	**14**	**1,111**	-	**1,042**	-	**-**	-	**69**	-
Current Taxation		**20** 42	**20**	40	**-**	-	**-**	2	
Insurance & Other Payables	**15**	**13,906**	12,693	**12,807**	11,372	**106**	64	**993**	1,257
TOTAL LIABILITIES		**313,904**	344,772	**295,264**	324,824	**106**	64	**18,534**	19,884
RESERVES									
Accumulated Reserves		**188,012**	160,707	**171,809**	146,224	**4,408**	4,383	**11,795**	10,100
TOTAL LIABILITIES & RESERVES		**501,916**	505,479	**467,073**	471,048	**4,514**	4,447	**30,329**	29,984

Robert A. Ho
Member of the Board
25 April 2017

Ian E. Gooch
Member of the Board
25 April 2017

The notes on pages 25 to 39 form part of these Financial Statements.

Statement of Financial Position – Holding Company only as at 20 February 2017

Company number: 10341

	Note	2017 US$'000	2016 US$'000
ASSETS			
Investment in Group Undertakings and Participated Interests	**10**	**5,811**	5,811
Other Financial Investments	**11**	**33,155**	41,227
Reinsurance Assets	**14**	**292,436**	319,904
Insurance & Other Receivables	**13**	**10,510**	7,434
Reinsurers' Share of Unearned Premium	**14**	**931**	67
Deferred Acquisition Costs		**126**	-
Cash & Cash Equivalents		**6,724**	3,882
TOTAL ASSETS		**349,693**	378,325
LIABILITIES			
Insurance Liabilities	**14**	**298,867**	332,037
Unearned Premium	**14**	**1,111**	-
Current Taxation		**20**	42
Insurance & Other Payables	**15**	**35,033**	29,853
TOTAL LIABILITIES		**335,031**	361,932
RESERVES			
Accumulated Reserves		**14,662**	16,393
TOTAL LIABILITIES & RESERVES		**349,693**	378,325

Robert A. Ho
Member of the Board
25 April 2017

Ian E. Gooch
Member of the Board
25 April 2017

The notes on pages 25 to 39 form part of these Financial Statements.

Consolidated Statement of Cash Flows for the year ended 20 February 2017

	Note	2017 US$'000	2016 US$'000
Cash Generated From Operating Activities			
Cash Flows From Operating Activities	**16**	**(10,479)**	6,035
Tax Paid		**(273)**	(76)
Net Cash (Outflows)/Inflows from Operating Activities		**(10,752)**	5,959
Cash Generated from Investing Activities			
Payments to acquire investments		**(330,521)**	(271,788)
Receipts for the sale of investments		**350,043**	269,900
Interest Received		**226**	134
Net Cash Inflows/(Outflows) from Investing Activities		**19,748**	(1,754)
Increase in Cash & Cash Equivalents		**8,996**	4,205
Cash & Cash Equivalents at 21 February 2016		**18,259**	15,848
Effects of Foreign Exchange on Cash & Cash Equivalents		**(3,137)**	(1,794)
Cash & Cash Equivalents at 20 February 2017		**24,118**	18,259

The notes on pages 25 to 39 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 in the United Kingdom. It is limited by guarantee, has no share capital and is controlled by the Members who are also insured policy holders.

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

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

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.

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

2.1.3 Going Concern

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

2.2.3 Reinsurance Premiums

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

2.2.4 Reinsurance Recoveries

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

2.2.5 Claims Handling Costs

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

2.2.6 Technical Provisions

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

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

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

When determining the appropriate IBNR provision for occupational disease claims, the Directors additionally take into consideration the most recently available recommendations from a firm of actuarial consultants with specialist knowledge in this field.

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

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

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

2.2.7 Unearned Premium

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

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

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

2.3 Other Accounting Policies

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

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

2.2.3 Foreign Exchange
Assets and Liabilities have been translated, where applicable, at the rates ruling at 20 February 2017.

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

2.3.4 Financial Investments
Financial Investments are shown at current market value at the Statement of Financial Position date. Listed Investments are stated at market value. Unlisted Investments are valued by the Directors on a prudent basis, having regard to their likely realisable 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 and Derecognition of Financial Assets and Liabilities
Financial Assets and Financial Liabilities are recognised when the Association becomes a party to the contractual provisions of the contract.

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

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

All regular way purchases and sales of Financial Assets are recognised on the trade date, i.e. the date that the Association commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of Financial Assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace

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

2.3.9 Investment Property
The Investment Property is recorded in the Statement of Financial Position as outlined at Note 12. No depreciation or amortisation is provided in respect of the property.

Note 3: Principal Risks & Uncertainties

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

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

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

Each Committee has formal Terms of Reference which dovetail to provide the Association with a comprehensive risk function. The principal areas of risk relevant to the Association's operations, and management of these risks, are described below.

3.1 Insurance Risk

Insurance risk comprises underwriting risk and reserving risk.

Underwriting Risk

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

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

Reserving Risk

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

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

Some results of sensitivity testing are set out below, showing the impact on surplus before tax and equity, gross and net of reinsurance. For each sensitivity, the impact of a change in a single factor is shown, with other assumptions unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

	2017 US$'000	2016 US$'000
Increase in Loss Ratio by 5 percentage points		
Gross	**(5,145)**	(5,507)
Net	**(4,136)**	(4,374)
Decrease in Loss Ratio by 5 percentage points		
Gross	**5,145**	5,507
Net	**4,136**	4,374

3.2 Liquidity Risk

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

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

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

Assets at 20 February 2017	**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	**377,894**	**79,589**	**29,309**	**31,322**	**237,674**	**377,894**
Investment Property	**15,168**	**-**	**-**	**-**	**15,168**	**15,168**
Receivables	**15,726**	**15,726**	**-**	**-**	**-**	**15,726**
Reinsurance Assets	**92,583**	**8,610**	**18,794**	**14,721**	**50,458**	**92,583**
Reinsurer Share of UPR	**419**	**419**	**-**	**-**	**-**	**419**
Deferred Acquisition Costs	**126**	**126**	**-**	**-**	**-**	**126**
Total Assets	**501,916**	**104,470**	**48,103**	**46,043**	**303,300**	**501,916**

Liabilities at 20 February 2017	**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	**298,867**	**61,567**	**76,510**	**45,727**	**115,063**	**298,867**
Unearned Premium	**1,111**	**1,111**	**-**	**-**	**-**	**1,111**
Taxation	**20**	**20**	**-**	**-**	**-**	**20**
Payables	**13,906**	**13,906**	**-**	**-**	**-**	**13,906**
Total Liabilities	**313,904**	**76,604**	**76,510**	**45,727**	**115,063**	**313,904**

Assets at 20 February 2016	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	367,691	101,526	24,247	24,700	217,218	367,691
Investment Property	17,502	17,502	-	-	-	17,502
Receivables	12,142	12,142	-	-	-	12,142
Reinsurer Share of UPR	673	673	-	-	-	673
Reinsurance Assets	107,471	15,046	28,265	18,592	45,568	107,471
Total Assets	505,479	146,889	52,512	43,292	262,786	505,479

Liabilities at 20 February 2016	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	332,037	77,697	98,283	52,462	103,595	332,037
Taxation	42	42	-	-	-	42
Payables	12,693	12,693	-	-	-	12,693
Total Liabilities	344,772	90,432	98,283	52,462	103,595	344,772

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

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

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

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

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

Increase of 100 Basis Points	Reduction in Valuation US$'000
As at 20 February 2017	**11,884**
As at 20 February 2016	11,155

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 per cent decrease in the value of equity securities held at the year-end date would have decreased accumulated reserves at that date by US$8,384k (2016: US$7,485k).

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

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

As at 20 February 2017	**US$ US$'000**	**GBP US$'000**	**EUR US$'000**	**Other US$'000**	**Total US$'000**
Total Assets	**462,541**	**19,847**	**5,419**	**14,109**	**501,916**
Total Liabilities	**259,879**	**14,558**	**13,704**	**25,763**	**313,904**
Net Asset Position	**202,662**	**5,289**	**(8,285)**	**(11,654)**	**188,012**

As at 20 February 2016	US$ US$'000	GBP US$'000	EUR US$'000	Other US$'000	Total US$'000
Total Assets	445,400	19,701	730	39,648	505,479
Total Liabilities	257,560	16,475	11,437	59,258	344,730
Net Asset Position	187,840	3,226	(10,707)	(19,610)	160,749

A 5 per cent 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:

As at 20 February 2017	**US$'000**
Strengthening	
Sterling	**265**
Euro	**(414)**
Weakening	
Sterling	**(265)**
Euro	**414**

As at 20 February 2016	US$'000
Strengthening	
Sterling	161
Euro	(535)
Weakening	
Sterling	(161)
Euro	535

3.4 Credit Risk

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

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

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

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

As at 20 February 2017	**SOFP US$'000**	**AAA US$'000**	**AA US$'000**	**A US$'000**	**BBB & Below US$'000**	**Other US$'000**	**Total US$'000**
Reinsurance Assets	**92,583**	**-**	**7,755**	**77,123**	**7,703**	**2**	**92,583**
RI Share of UPR	**419**	**-**	**-**	**419**	**-**	**-**	**419**
Receivables	**15,726**	**20**	**271**	**7,773**	**1,021**	**6,641**	**15,726**
Deferred Acquisition Costs	**126**	**-**	**-**	**-**	**-**	**126**	**126**
Total	**108,854**	**20**	**8,026**	**85,315**	**8,724**	**6,769**	**108,854**

As at 20 February 2016	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB & Below US$'000	Other US$'000	Total US$'000
Reinsurance Assets	107,471	-	11,857	73,202	22,027	385	107,471
RI Share of UPR	673	-	-	673	-	-	673
Receivables	12,142	528	242	4,474	490	6,408	12,142
Total	120,286	528	12,099	78,349	22,517	6,793	120,286

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

As at 20 February 2017	**SOFP US$'000**	**AAA US$'000**	**AA US$'000**	**A US$'000**	**BBB US$'000**	**Other US$'000**	**Total US$'000**
Cash & Investments	**377,894**	**93,470**	**47,242**	**70,908**	**34,354**	**131,920**	**377,894**

As at 20 February 2016	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB US$'000	Other US$'000	Total US$'000
Cash & Investments	367,691	119,199	21,764	83,933	39,005	103,790	367,691

Note 4: Net Earned Premium

All contracts are concluded in the United Kingdom

	2017 US$'000	2016 US$'000
Gross Calls & Premiums Written during the Year	**104,002**	110,072
Reinsurance Premiums paid during the Year:		
Group Excess of Loss	**(11,256)**	(14,085)
Other Reinsurance Premiums	**(8,671)**	(9,258)
Net Written Premium	**84,075**	86,729
Change in Provision for Unearned Premiums	**(1,111)**	-
Change in Provision for Reinsurers' Share of Unearned Premiums	**(254)**	673
Net Earned Premium	**82,710**	87,402

Note 5: Gross Claims Paid

	2017 US$'000	2016 US$'000
Gross Payment of Association's Own Claims	**127,710**	69,496
Association's Share of Other Clubs Pool Claims	**11,558**	10,901
Gross Claims Paid	**139,268**	80,397

Note 6: Reinsurance Recoveries

	2017 US$'000	2016 US$'000
Association's Claims under Pooling Agreement	**42,451**	(420)
Recoveries under Group Excess of Loss Policies	**1,549**	684
Recoveries under Sundry Reinsurance Policies	**7,514**	3,867
Reinsurance Recoveries	**51,514**	4,131

Note 7: Investment Income

	2017 US$'000	2016 US$'000
Income from Listed Investments	**9,819**	11,149
Realised Gains on Investments	**4,173**	10,493
Bank & Other Interest Receivable	**227**	134
Investment Income	**14,219**	21,776

Note 8: Net Operating Expenses

	2017 US$'000	2016 US$'000
Acquisition Costs	**8,376**	8,139
Administration Expenses	**3,166**	3,815
Net Operating Expenses	**11,542**	11,954

Included with Administration Expenses are the following:

	2017 US$'000	2016 US$'000
Auditors' Remuneration	**222**	241
Other non-statutory audit related expenses	**68**	31
Board and Committee Fees	**376**	453
Change in Deferred Acquisition Costs	**126**	-

Other than the Board and Committee Members, the Association does not employ any staff (2016: nil).

Note 9: Taxation charge for the year

	2017 US$'000	2016 US$'000
Current Taxation on Income for the Reporting Period	**20**	41
Overseas Taxation	**232**	103
Income Tax Expense	**252**	144

Note 10: Investments in Group Undertakings & Participating Interests

	2017 US$'000	2016 US$'000
Shares in Group Undertakings & Participating Interests	**5,811**	5,811

The Companies listed below are wholly owned subsidiaries.

In view of the dormant and immaterial nature of both The London and Channel Islands P&I Association Limited and London and Bermuda Reinsurance Company Limited (LBR), the Board has taken the decision to exclude them from the Consolidated Financial Statements.

	Consolidated	Country of Incorporation	Class of Shares	Principal Activity
Hydra Insurance Company Limited – London Cell	Yes	Bermuda	Ordinary/Preferred	Reinsurance
The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited	Yes	Bermuda	N/A	Reinsurance
London & Bermuda Reinsurance Company Limited	No	Bermuda	Ordinary	Dormant
The London & Channel Islands P&I Association Limited	No	Guernsey	Ordinary	Dormant

At 20 February 2017, 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 (2016: US$5,791k).

The following table summarises the Financial Statements of Hydra for the Year Ended 20 February 2017:

	2017 US$'000	2016 US$'000
Summary Income Statement		
Net Earned Premiums	**7,898**	7,901
Net Claims Payments	**(6,791)**	(3,692)
Net Investment Income	**85**	297
Other Expenses	**198**	(29)
Surplus for the year	**1,390**	4,477
Summary Statement of Financial Position		
Financial Investments	**36,566**	32,869
Reinsurance Assets	**1,507**	923
Other Receivables	**118**	142
Insurance Liabilities	**23,129**	20,262
Other Payables	**15**	16
Net Assets	**15,047**	**13,656**

Note 11: Financial Investments

As at 20 February 2017	Consolidated Market Value US$'000	Consolidated Cost US$'000	Holding Market Value US$'000	Holding Cost US$'000
Equity Securities	**83,884**	**68,692**	**-**	**-**
Debt Securities	**236,717**	**239,372**	**-**	**-**
Unlisted Investments	**7,270**	**7,012**	**7,250**	**7,012**
Unlisted Deposits	**25,905**	**25,905**	**25,905**	**25,905**
Total Investments	**353,776**	**340,981**	**33,155**	**32,917**

As at 20 February 2016	Consolidated Market Value US$'000	Consolidated Cost US$'000	Holding Market Value US$'000	Holding Cost US$'000
Equity Securities	76,124	73,522	-	-
Debt Securities	232,061	240,063	-	-
Unlisted Investments	7,342	7,007	7,322	7,007
Unlisted Deposits	33,905	25,905	33,905	25,905
Total Investments	349,432	346,497	41,227	32,912

Included in financial investments is US$11,900K (2016: US$21,900k) held as collateral against third party guarantees issued by banks on behalf of the Association. 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 US$51k (2016: US$135k) are included in the Statement of Financial Position. These relate to forward contracts purchased close to the year-end date due to the favourable US$ 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 valued hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value takes into account the following:

Valuation Methodology	
Quoted prices for identical instruments in active market	Classification A
Prices of recent transactions for identical instruments	Classification B
Valuation techniques using unobservable market data	Classification C

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

As at 20 February 2017	**Classification A US$'000**	**Classification B US$'000**	**Classification C US$'000**	**Total US$'000**
Equity Securities	**83,884**	**-**	**-**	**83,884**
Debt Securities & Other	**81,035**	**188,857**	**-**	**269,892**
Total	**164,919**	**188,857**	**-**	**353,776**

As at 20 February 2016	Classification A US$'000	Classification B US$'000	Classification C US$'000	Total US$'000
Equity Securities	76,124	-	-	76,124
Debt Securities & Other	86,422	186,886	-	273,308
Total	162,546	186,886	-	349,432

Note 12: Investment Property

The Freehold Property is 50 Leman Street, London, United Kingdom, owned by The London Steam-Ship Owners' Mutual Insurance Association (Bermuda) Limited. In accordance with the Association's Group policy to value the property on a periodic basis, the Independent Consultants, Strettons Limited, conducted a valuation of the property during the year ended 20 February 2015.

The report determined, based on valuations prescribed by the Royal Institute of Chartered Surveyors, an open market value of the property, including leasehold improvements of GBP12,225K equating to US$18,873K as at 20 February 2015 resulting in an unrealised gain of US$9,223k in the year ended 20 February 2015. During the year, due to foreign exchange movements, the US$ value of the property fell US$2,335k to US$15,168k (2016: US$1,370k FX Loss, Property Value: US$17,502k).

Note 13: Insurance & Other Receivables

	Consolidated 2017 US$'000	Consolidated 2016 US$'000	Holding 2017 US$'000	Holding 2016 US$'000
Amounts arising from Insurance Operations	**5,676**	4,898	**5,676**	4,898
Amounts arising from Reinsurance Operations	**3,518**	1,342	**3,518**	1,342
Amounts arising from Investing Operations	**3,404**	2,302	**-**	-
Prepayments & Accrued Income	**3,052**	2,949	**1,240**	543
Other Receivables	**76**	651	**76**	651
Total Insurance & Other Receivables	**15,726**	12,142	**10,510**	7,434

Note 14: Net Insurance Liabilities

Balances on Insurance & Reinsurance Contracts

	Consolidated 2017 US$'000	Consolidated 2016 US$'000	Holding 2017 US$'000	Holding 2016 US$'000
Insurance Liabilities				
Members Claims	**251,932**	276,813	**251,932**	276,813
Association's Share of Pool Claims	**46,935**	55,224	**46,935**	55,224
Unearned Premium	**1,111**	-	**1,111**	-
	299,978	332,037	**299,978**	332,037
Reinsurance Assets				
Market Reinsurance	**17,496**	20,252	**242,686**	261,481
Pool Recoveries	**75,087**	87,219	**49,750**	58,423
Reinsurers' Share of Unearned Premium	**419**	673	**931**	67
	93,002	108,144	**293,367**	319,971
Net Insurance Liabilities	**206,976**	223,893	**6,611**	12,066

Movement in Insurance & Reinsurance Contracts

	Consolidated 2017 US$'000	Consolidated 2016 US$'000	Holding 2017 US$'000	Holding 2016 US$'000
Insurance Liabilities & Unearned Premium				
Claims Outstanding				
As at 21 February	**332,037**	346,993	**332,037**	346,993
Claims paid in the Year	**(139,266)**	(80,397)	**(139,266)**	(80,397)
Changes to Reserves in the Year	**106,096**	65,441	**106,096**	65,441
As at 20 February	**298,867**	332,037	**298,867**	332,037
Unearned Premium				
As at 21 February	**-**	-	**-**	-
Calls & Premiums Written in the Year	**104,002**	-	**104,002**	-
Calls & Premiums Earned in the Year	**(102,891)**	-	**(102,891)**	-
As at 20 February	**1,111**	-	**1,111**	-
Total Insurance Liabilities & Unearned Premiums	**299,978**	332,037	**299,978**	332,037

	Consolidated 2017 US$'000	Consolidated 2016 US$'000	Holding 2017 US$'000	Holding 2016 US$'000
Reinsurance Assets & Reinsurers' Share of Unearned Premium				
Reinsurers' Share of Claims Outstanding				
As at 21 February	**107,471**	106,289	**319,904**	329,905
Reinsurance Recoveries made in the Year	**(51,514)**	(4,131)	**(55,992)**	(10,572)
Changes to Reserves in the Year	**36,626**	5,313	**28,524**	571
As at 20 February	**92,583**	107,471	**292,436**	319,904
Reinsurers' Share of Unearned Premium				
As at 21 February	**673**	-	**67**	-
Reinsurance Premium Written in the Year	**19,927**	675	**27,825**	67
Reinsurance Premium Earned in the Year	**(20,181)**	(2)	**(26,961)**	-
As at 20 February	**419**	673	**931**	67
Total Reinsurance Assets & Reinsurers' Share of Unearned Premium	**93,002**	108,144	**293,637**	319,971
Total Net Technical Provisions	**206,976**	223,893	**6,611**	12,066

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 2017	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$'000	Total US$'000
Gross Ultimate Claims								
Current Year		92,371	88,812	86,115	109,245	66,328	67,198	
One Year Later		81,236	82,990	79,950	110,405	66,033		
Two Years Later		78,412	79,066	76,143	107,238			
Three Years Later		80,073	72,882	74,906				
Four Years Later		77,726	70,497					
Five Years Later		77,360						
Gross Cumulative Paids								
Current Year		18,992	14,760	12,290	20,688	12,590	24,450	
One Year Later		48,654	37,189	32,600	40,925	30,105		
Two Years Later		62,740	52,890	44,171	66,001			
Three Years Later		69,823	57,576	50,876				
Four Years Later		70,334	60,466					
Five Years Later		71,585						
Gross Outstanding Claims	139,118	5,775	10,031	24,030	41,237	35,928	42,748	**298,867**

Net Claims Development

As at 20 February 2017	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$'000	Total US$'000
Net Ultimate Claims								
Current Year		90,523	88,772	85,760	93,132	64,544	60,044	
One Year Later		75,871	82,941	79,382	89,177	62,130		
Two Years Later		72,121	78,981	75,771	86,718			
Three Years Later		72,398	72,803	74,238				
Four Years Later		69,688	70,459					
Five Years Later		69,880						
Net Cumulative Paids								
Current Year		18,925	14,760	12,290	20,688	11,761	20,734	
One Year Later		47,007	37,189	35,523	40,925	29,234		
Two Years Later		57,753	52,852	43,908	57,014			
Three Years Later		63,052	57,538	50,612				
Four Years Later		63,270	60,428					
Five Years Later		64,452						
Net Outstanding Claims	65,317	5,428	10,031	23,626	29,677	32,896	39,310	**206,285**

Note 15: Insurance & Other Payables

	Consolidated 2017 US$'000	Consolidated 2016 US$'000	Holding 2017 US$'000	Holding 2016 US$'000
Amounts arising out of Insurance Operations	**770**	1,525	**770**	1,525
Amounts arising out of Reinsurance Operations	**245**	519	**245**	519
Amounts arising out of Investing Operations	**8,327**	4,649	**-**	-
Accruals & Deferred Income	**2,788**	3,397	**2,070**	2,921
Other Payables	**1,776**	2,603	**31,948**	24,888
Total Insurance & Other Payables	**13,906**	12,693	**35,033**	29,853

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

	2017 US$'000	2016 US$'000
Group Operating Surplus for the Year	**27,328**	3,303
Changes in Estimated Gross Outstanding Claims	**(33,170)**	(14,956)
Changes in Estimated Net Outstanding Claims	**14,888**	(1,181)
Changes in Unearned Premium	**1,111**	-
Changes in Reinsurers' Share of Unearned Premium	**254**	(673)
Changes in Deferred Acquisition Costs	**(126)**	-
Realised & Unrealised (Losses)/Gains on Investments	**(21,530)**	19,002
Working Capital Movements		
Changes in Receivables	**(3,552)**	(988)
Changes in Payables	**1,181**	(266)
Foreign Exchange Adjustment	**3,137**	1,794
Net Cash (Outflows)/Inflows from Operating Activities	**(10,479)**	6,035

Note 17: Related Party Transactions

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

Most of the Directors are representatives or agents of member companies and other than the insurance and membership interests in the Directors' companies, the Directors have no financial interest in the Association. The Board delegates the day to day operations of the Association to A. Bilbrough & Co. Limited. On 20 February 2017, three Directors of A. Bilbrough & Co. Limited became directors of the Association.

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

Note 18: Average Expense Ratio – P&I Only

In accordance with the International Group Agreement 2013, 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 2017. The Ratio of 9.51% (2016: 9.52%) 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	2014/15 Policy Year US$'000	2015/16 Policy Year US$'000	2016/2017 Policy Year US$'000	Total US$'000
Year to 20 February 2017				125	255	92,242	
Year to 20 February 2016				35	98,655	-	
Year to 20 February 2015				99,950	-	-	
Total Earned Calls & Premiums				100,110	98,910	92,242	
Earned Reinsurance Premiums				(22,024)	(20,385)	(17,965)	
Net Earned Premium				**78,086**	**78,525**	**74,277**	
Net Claims Paid	1			(66,268)	(38,954)	(32,812)	
Net Operating Expenses	2			(12,391)	(12,546)	(13,204)	
Investment Income				13,711	18,016	10,859	
Balance available for Outstanding Claims	3	**124,094**	**98,975**	**13,138**	**45,041**	**39,120**	**320,368**
Allocation from Reserves at 20 February 2016			-	17,983	-	-	17,983
Net Insurance Liabilities			(96,035)	(28,850)	(31,180)	(36,006)	(192,071)
		124,094	2,940	2,271	13,861	3,114	146,280
Unrealised Gains on Investments & Property		25,529		-	-	-	25,529
Allocation to/(from) Closed Years at 20 February 2017		2,940	(2,940)	-	-	-	-
Undiscounted Policy Year Balances		**152,563**	**-**	**2,271**	**13,861**	**3,114**	**171,809**

Class 8 – FD&D Policy Year Statement

	Notes	Reserves US$'000	Closed Years US$'000	2014/15 Policy Year US$'000	2015/16 Policy Year US$'000	2016/2017 Policy Year US$'000	Total US$'000
Year to 20 February 2017				(10)	253	9,976	
Year to 20 February 2016				328	11,057	-	
Year to 20 February 2015				11,217	-	-	
Total Earned Calls & Premiums				11,535	11,310	9,976	
Earned Reinsurance Premiums				(2,033)	(2,103)	(2,044)	
Net Written Premium				**9,502**	**9,207**	**7,932**	
Net Claims Paid	1			(8,085)	(6,767)	(3,135)	
Net Operating Expenses	2			(1,382)	(1,433)	(1,505)	
Investment Income				1,315	1,125	691	
Balance available for Outstanding Claims	3	**6,943**	**4,978**	**1,350**	**2,132**	**3,969**	**19,372**
Allocation from Reserves at 20 February 2016			2,026	1,112	1,144		4,282
Net Insurance Liabilities			(3,173)	(2,027)	(3,316)	(5,696)	(14,212)
		6,943	3,831	435	(41)	(1,726)	9,442
Unrealised Gains on Investments & Property		2,353	-	-	-	-	2,353
Allocation from Closed Years at 20 February 2017		2,071	(3,831)	-	41	1,726	-
Undiscounted Policy Year Balances		**11,367**	**-**	**435**	**-**	**-**	**11,795**

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 2014/15 – 2016/17 has been determined on the basis of current provisional percentage shares. Final percentage shares may differ.

	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000
Association's Share of Other Clubs Pool Claims	5,971	5,678	783

Note 2: Net Operating Expenses

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

	CLASS 5 – P&I			CLASS 8 – FD&D		
	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000
Exchange Adjustments	1,260	1,698	**3,048**	10	96	**116**
Admin Expenses	3,624	3,430	**2,900**	480	461	**494**
Brokerage & Commission	7,507	7,418	**7,256**	892	876	**895**
Total	12,391	12,546	**13,204**	1,382	1,433	**1,505**

Note 3: Net Outstanding Claims

	CLASS 5 – P&I				CLASS 8 – FD&D			
	Closed Years US$'000	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000	Closed Years US$'000	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000
Gross Claims Outstanding								
Retained	142,239	36,701	23,316	32,204	4,808	2,651	4,316	5,697
Pool	26,715	3,085	9,896	7,239	-	-	-	-
	168,954	39,786	33,212	39,443	4,808	2,651	4,316	5,697
Reinsurers' Share of Claims Outstanding								
Pool	(66,072)	(7,180)	-	(1,205)	-	-	-	-
Group XL/Hydra	(3,539)	-	-	-	-	-	-	-
Other	(3,306)	(3,756)	(2,032)	(2,233)	(1,635)	(624)	(1,000)	-
	(72,919)	(10,936)	(2,032)	(3,438)	(1,635)	(624)	(1,000)	-
Net Claims	96,037	28,850	31,180	36,005	3,173	2,027	3,316	5,697

Appendix II: Release Calls (Unaudited)

At the meeting on 25 April 2017, the Board reviewed the Open Policy Years and Release Call rates and reached the following decisions:

	Class 5 – P&I	Class 8 – FD&D
2014/2015	5.0% of the Annual Call	5.0% of the Annual Call
2015/2016	12.5% of the Annual Call	12.5% of the Annual Call
2016/2017	15.0% of the Annual Call	15.0% of the Annual Call
2017/2018	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 2013, 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:

2012/2013	Nil (Closed)
2013/2014	Nil (Closed)
2014/2015	5.0% of the Annual Call (as stated above)
2015/2016	12.5% of the Annual Call (as stated above)
2016/2017	15.0% of the Annual Call (as stated above)

Managers
A. Bilbrough & Co. Ltd.

London
50 Leman Street
London E1 8HQ
Telephone: **+44 20 7772 8000**
Facsimile: **+44 20 7772 8200**
Email: london@londonpandi.com

Greece
Ionion Building
Akti Miaouli & 2, II Merarchias Street
185 35 Piraeus
Telephone: **+30 210 458 6600**
Facsimile: **+30 210 458 6601**
Email: piraeus@londonpandi.com

Hong Kong
Room 1802 Guardian House
32 Oi Kwan Road
Hong Kong
Telephone: **+852 37615678**
Facsimile: **+852 28382001 & 28381278**
Email: hongkong@londonpandi.com

www.londonpandi.com