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 2018

Registration number: 10341

Contents

Board of Directors & Members' Committee

The following persons served on the Board during the year, and at the date on which these Financial Statements were approved (unless otherwise stated):

Board of Directors

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

Vassilis J. Laliotis
J. Laliotis Maritime Group,
Athens

John L. Lawrence
London
Appointed 11 July 2017

Amnon Lion
Eastern Pacific Shipping Pte. Ltd.,
Singapore

John J. Raggio
Sealift LLC,
New York

Sophocles N. Zoullas
Zenith Shipping LLC,
New York

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

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

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

Officers of the Association

John M. Lyras
Chairman

Peter J. Goulandris
Vice-Chairman

Robert A. Ho
Vice-Chairman

Amnon Lion
Audit Committee Chairman

John L. Harbor
Risk 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

Ali Aktoprak
Canakkale Liman Isletmesi
San. Ve Tic. A.S.,
Canakkale
Appointed 12 July 2017

Rozainah Bt Awang
MISC Berhad,
Kuala Lumpur

Peter J. Cowling
Wallem Ltd,
London

John Dragnis
Goldenport
Shipmanagement Ltd.,
Athens

Stamos J. Fafalios
Fafalios Ltd,
London

John L. Harbor
Surrey

Wenguang Ji
SITC Shipping Group,
Shanghai
Appointed 31 January 2018

Vassilis J. Laliotis
J. Laliotis Maritime Group,
Athens

John L. Lawrence
London
Appointed 12 July 2017

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

Zhongyi (John) Su
Erasmus Shipinvest Group Ltd.,
Athens
Appointed 18 October 2017

Bjorn A. Tietgens
Norddeutsche Reederei
H. Schuldt GmbH & Co. KG
Hamburg
Appointed 18 October 2017

Bendix Todsen
Hamburg

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

Sophocles N. Zoullas
Zenith Shipping LLC,
New York

Registered address
50 Leman Street
London
E1 8HQ


Ali Aktoprak


Rozainah Bt Awang


Giangiacomo Serena


James L. Marshall


Sophocles N. Zoullas


Vassilis J. Laliotis


Zhongyi (John) Su

Chairman's Report

OPERATING RESULT FOR THE 2017/18 FINANCIAL YEAR WAS A SURPLUS OF

US$6.6m

WHICH LIFTED THE FREE RESERVES TO

US$194.6m

Dear Members,

The Association's operating result for the 2017/18 financial year was a surplus of US$6.6m which lifted the free reserves to US$194.6m.

However, this positive overall outcome followed a change in the benign claims conditions that we had experienced during the two prior years, with evidence of increased claims activity within the Association's retention layers and particularly on the International Group Pool. The move in the claims environment came when P&I rates remained under intense pressure, and the combination of these factors had a negative impact on our underwriting performance.

Such developments serve to underline the long-term importance of several strategic measures implemented as part of the work being carried out to ensure that the Association remains securely positioned to provide cost-effective, top class P&I, FD&D and War Risk support to all our Members. These measures include a more granular approach by our underwriters to rating and the setting of terms for individual Members, reflecting risk exposure as well as record. Our underwriting strategy has also been refined to deliver controlled growth in the size and spread of our Membership – and so it was pleasing to see a year-on-year increase in the Association's mutually entered tonnage of over 5% following the 2018 renewal. There is further information on our progress in these areas in the Strategic Report section.

Another important element in the result was the performance of the Association's invested assets and cash holdings. Notwithstanding volatility experienced towards the end of the year, the portfolio returned 5.5%. There were positive returns from all the Managers in our well-diversified portfolio, which reflects the Association's risk appetite and the control environment of our quota share reinsurer in Bermuda.

The value of the International Group system, including its support for the operation and reinsurance of claims pooling between the Clubs and the advantages associated with a collective approach to the addressing of industry issues, has always been considered as highly significant by the Board. During the year, we were therefore interested in the performance of a wide-ranging market research project aimed at providing greater insight into how the Group is perceived by Members, brokers and the wider maritime community. Findings arising from the exercise, including strong recognition of the Group's professionalism, competence and effective representation of Shipowners, came as no surprise, as they are aligned with our own experience. We were also unsurprised that such a far-reaching survey would produce feedback which helped identify some aspects of the Group's operation that might benefit from review. For example, good governance of the Group's extensive network of sub-committees and working groups is essential to the efficient performance of its representation function. This is especially true given the increasing demands on the system posed by the number and complexity of the issues that now need to be addressed. The direction and how the arrangements and work of the Group are communicated are also important, and are issues to which the Board will be paying keen attention.

During the year under review, detailed consideration was also given to Brexit contingency planning. Although it now appears highly likely agreement will be reached over a transition period to provide an extension to the current passporting regime, the Board's priority is to ensure the smooth and secure functioning of the business, whatever form Brexit takes. To that end, having worked during the year to identify a shortlist of European Union jurisdictions in which to establish a subsidiary company to underwrite future EU business, there were a series of meetings and pre-application presentations with the relevant insurance regulators. The information and other feedback generated by this process was then reviewed by the Board which decided to establish the Association's EU subsidiary in Cyprus.

2017/18 was the first year in which the Association operated under the new corporate governance arrangements that I outlined in my report 12 months ago. We have devoted much care to ensuring that these changes continue to allow the Association to benefit from meaningful input from senior shipping figures elected from across our Membership, through the work of our Members' Committee. The effectiveness of the new structure is something which we keep under close review. In the meantime, the increasing regulatory demands for the Board to deal with included a wide range of capital, risk management and compliance issues, underscored during the year by, for example, the production of the Association's first Solvency and Financial Condition Report. A range of forthcoming compliance changes also received consideration – with the EU Insurance Distribution Directive and the new Senior Managers & Certification Regime being examples of an ever-evolving regulatory landscape which the Board must be prepared for.

During the year, John Lawrence joined the Board as an independent non-executive director, and we also welcomed Ali Aktoprak, Zhongyi (John) Su, Bjorn Tietgens and Wenguang Ji to our Members' Committee.

John M. Lyras
Chairman
25 April 2018

Strategic Report

PRINCIPAL ACTIVITIES

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

FINANCIAL OVERVIEW

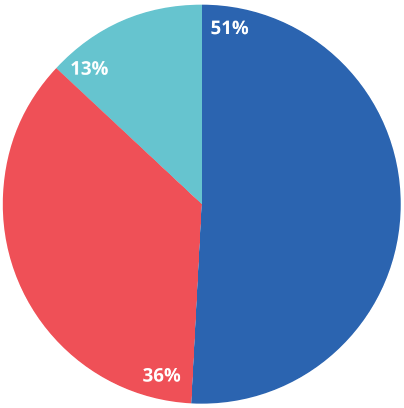
The Association recorded an operating surplus after tax of US$6.6m in the financial year under review. This satisfactory trading performance lifted free reserves at the year-end date to US$194.6m.

Gross and net earned premiums, at US$101.7m and US$81.3m respectively, were very slightly down on their prior year comparatives. The Financial Overview section of the Association's 2017 Annual Report referred to the fact that premium levels for P&I had fallen in recent years and this was the case once more in 2017/18. At line of business level, the year-on-year premium reduction for the Association's core mutual P&I product was more pronounced than the overall reduction presented in these financial statements, despite an increase in the volume of business on risk. The Association's fixed premium offerings, and in particular its fixed premium P&I product for the owners of smaller ships, experienced another year of strong growth in both business volumes and earned revenues.

Net incurred claims of US$83.9m recognised in the year just ended represented a US$14.4m increase on the prior year comparative. Whilst there were, as ever, many differences in the composition of claims costs across business lines year-on-year, the most notable difference was an increase in claims activity on the International Group Pool. More insight into the Association's claims experience in the year under review is provided in the dedicated claims section of this Report.

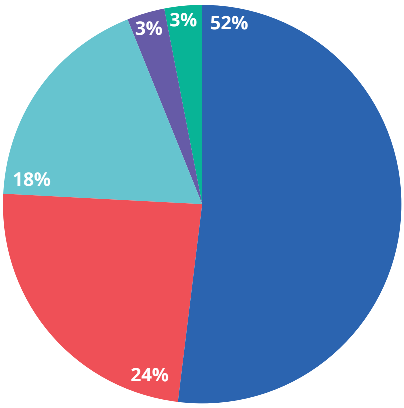
The Association recorded a 5.5% investment return net of associated investment management expenses, contributing US$18.9m to operating performance in 2017/18. A further US$2.0m gain was recognised on restatement of the Association's UK property asset into US$ at the foreign exchange rate prevailing on the year end date. This strong result for the investment component of operating performance was achieved despite an outbreak of financial market volatility towards the end of the financial year which paired some of the year-to-date gains achieved up until that point.

Mutual P&I Tonnage Profile 2018/19



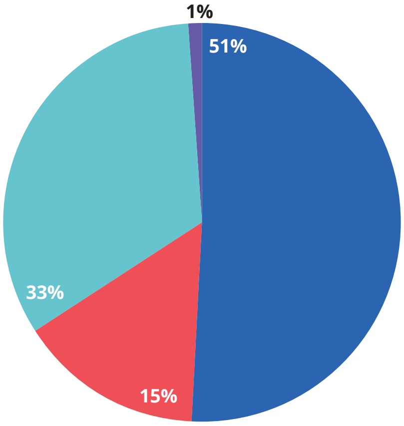
By Ship Age

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



By Ship Type

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



Regional Spread of Members

- Southern Europe
- Northern Europe
- Asia
- Americas

MEMBERSHIP & UNDERWRITING

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

Rating levels continued to come under pressure during the year under review and at the most recent renewal, but there was encouraging progress on a number of other fronts. For example, there were 5m gt of attachments to the Association's mutual owned entry; and although there were a considerable number of routine terminations, the level was lower than in the preceding year. These developments meant that there was a 2.5m gt or 5.8% year-on-year increase in the Association's mutual book. This growth also included additional entries from existing Members as well as entries from 11 new Members at the recent renewal, based in Bulgaria, China, Germany, Italy, Montenegro and Singapore.

The attachments referred to above reflect and build on recent adjustments to the Association's mutual underwriting strategy and the work put into achieving carefully managed growth in the size, profile and spread of the Membership. So, as indicated, the increased Member base is drawn from markets in which the Association is already established – but there is also progress in areas where efforts have been and continue to be made to raise our profile.

The refinements made to other aspects of the Association's underwriting strategy, especially involving our covers for Charterers and for the Owners of smaller ships also supported growth during the year under review. There was new business, again from a range of markets, including Bangladesh, Brazil, China, Germany, Monaco, Philippines, and Taiwan. There is also strong competition in each of these sectors but – as with mutual business – the Association's reputation for top-class service and support is a positive distinguishing feature. So the year saw an increase in the Association's Charterers account and an encouraging second full year of operation of the cover for smaller ships. As a result, the Association's combined entered tonnage increased to over 58m gt by the start of the current policy year.

Harry Wathen & Victoria Papageorgiou
Management
London

CLASS 5 – PROTECTING & INDEMNITY CLAIMS

The expected cost of net incurred claims at expiry of the 2017/18 policy year is US$62.1m, a rise of just under US$12m when compared to the figure for the prior policy year – see the graph opposite.

Analysis of the drivers of the net incurred claims typically involves a review of the financial impact of the relatively low numbers of the high severity retained claims, which are defined as claims expected to cost more than US$1m – the red band in the bars opposite. The overall position is almost always driven by claims in that band rather than by the much higher file counts in the three bands of lower value claims.

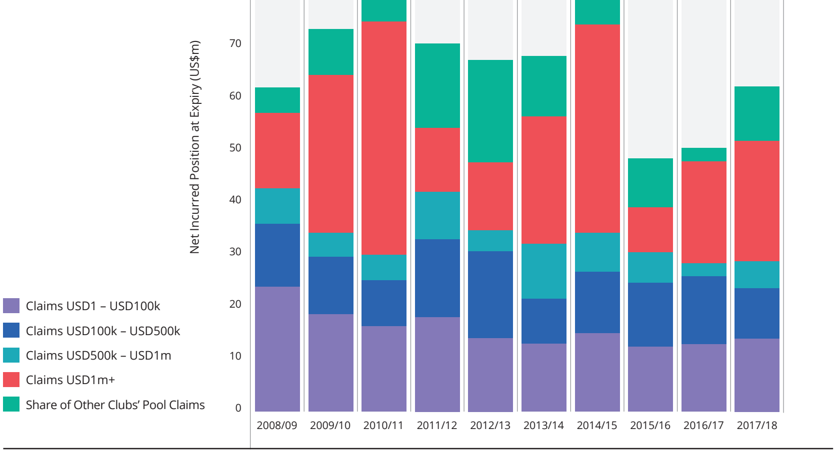
At US$28.8m, the aggregate cost of the three lowest claims bands (purple, blue, aqua) is not materially different to the two prior policy years. The US$12m rise in net retained claims is the result of a US$3m increase in the cost of high severity claims and a US$9m increase in the cost of Other Clubs' Pool Claims (the green band).

The claim types which feature most commonly in the high severity band are Collisions, Fixed and Floating Objects (FFO) and GA & Salvage.

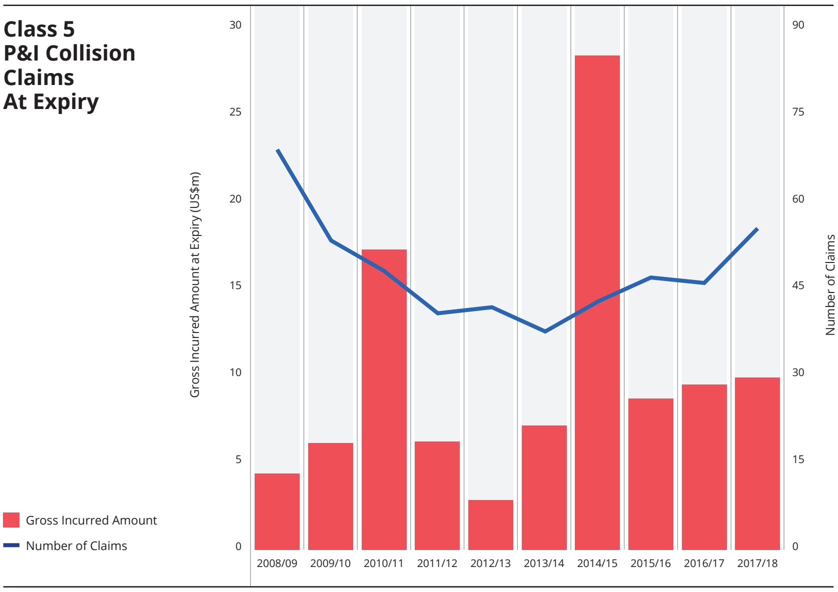
The graph opposite shows that the cost of Collision claims in 2017/18 has risen only very slightly when compared to the previous year, despite the increase in the number of claims.

In contrast, the cost of GA & Salvage claims has decreased significantly, from US$13.2m to US$3.9m – see opposite. However, the cost of GA & Salvage claims in 2016/17 was unusually high because of the Pool claim arising from the grounding of a bulk carrier in Mauritius in June 2016, reported in this section 12 months ago. The reduction in the cost of GA & Salvage claims in 2017/18 is explained by the absence of a Pool claim.

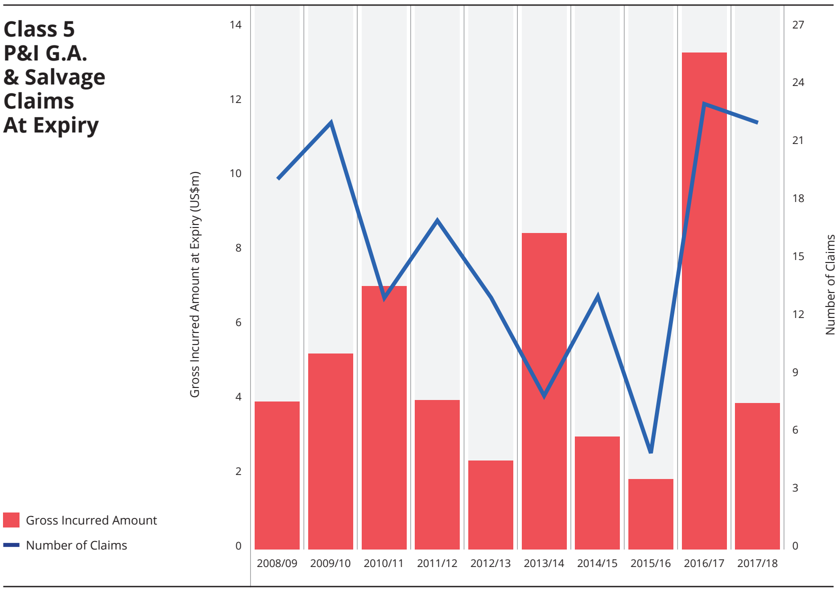
Class 5 P&I Net Incurred Position At Expiry



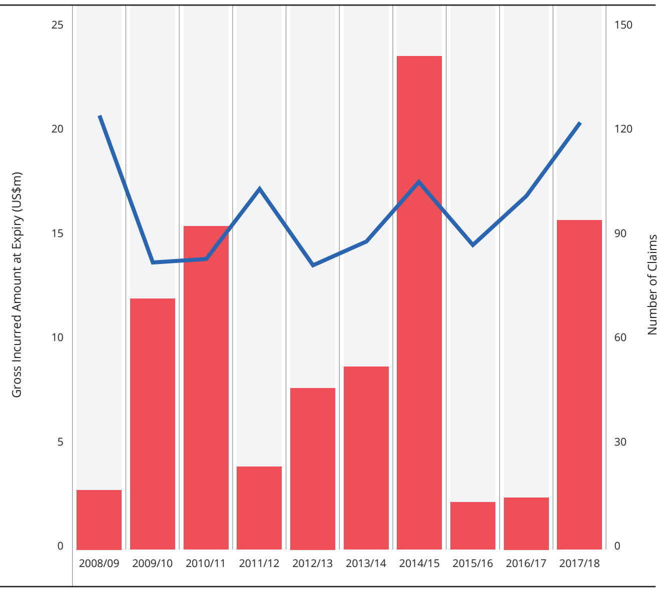
Class 5 P&I Collision Claims At Expiry



Class 5 P&I G.A. & Salvage Claims At Expiry



Class 5 P&I Fixed & Floating Object Claims At Expiry



Given the above experience of Collisions and GA & Salvage claims, the US$3m increase in the aggregate cost of high severity claims is the result of a US$13m increase in the cost of Fixed and Floating Object claims, reflected in the graph above.

Three high severity claims contributed significantly to the rising cost of FFO claims. The largest of the three is expected to cost just under US$6m. Interestingly, that claim has close connections to two of the claims contributing to the increased cost of Other Clubs' Pool Claims.

On 23 August 2017, typhoon "Hato" swept across Hong Kong and Guangzhou. Many of the ships anchored in the area were caught out by the strength of the typhoon, including an entered bulk carrier which was in a "typhoon anchorage", waiting to load. Multiple ships dragged anchor in the onshore winds. Two of the Other Clubs' Pool Claims are typhoon "Hato" wreck removal cases. The entered ship made heavy contact with an oil terminal on Guishan Island. The dock damage claim alone (leaving aside the inevitable business interruption claim) is expected to be in the region of US$12m. However, the Chinese legal advice is that the entered ship is entitled to limit liability to around US$5.5m. Although this is clearly an expensive claim, and is expected to be the most expensive P&I claim of the 2017/18 policy year, the cost has in fact been mitigated significantly by the relatively helpful applicable limit of liability.

The pollution damage claims arising from the *Prestige* incident (2002/03 policy year) continue to progress slowly. This is a consequence of the civil claims being determined at the end of the criminal proceedings. After a long trial in Spain, the Master was acquitted but found guilty after a short appeal process. Controversially, the Association was found directly liable for pollution damage claims up to the policy limit of US$1bn even though the limit under the CLC Convention, lodged in cash in court in 2003, was materially less. In November 2017, the Spanish Court provided a judgement on quantum. The Spanish and French States' claims were essentially upheld as presented (EUR1.65bn) while the third-party claims were substantially reduced. The sums awarded to the States were multiples of the level at which they were assessed by experts retained by the IOPC Fund. The quantum judgement is under appeal, but we now anticipate the case moving towards the enforcement phase. The third-party claimants could be fully satisfied from the CLC limitation fund if the State claimants agree their request to stand at the back of the queue. To enforce the judgement against the Association (up to the US$1bn limit), the State claimants have to overcome the earlier judgements obtained by the Association in London against the Spanish and French States, which submitted to the jurisdiction of the English courts, determining that any claim against the Association beyond the CLC limit has to be brought by way of arbitration in London and is subject to the "pay to be paid" rule. The Spanish judgement is considered to be irreconcilable with those obtained by the Association in England and so unenforceable under the Brussels I Regulation. The *Prestige* case is being followed closely by industry and the International Group's reinsurers.

Mei Lau
Management
Hong Kong

Despina Malaxianaki & Andreas Vrontakis
Management
Piraeus

CLASS 8 – FREIGHT, DEMURRAGE & DEFENCE CLAIMS

A trend in recent years has been the aspiration of an increasing number of Owner Members and Charterer assureds to rely on their claims teams, particularly the English-qualified solicitors, to handle the significant majority of their FD&D disputes "in-house" – that is without the need to instruct external solicitors. Indeed, in some cases new accounts, particularly Charterers, make it clear that the Association's experienced and well-regarded FD&D resources are of particular importance to them.

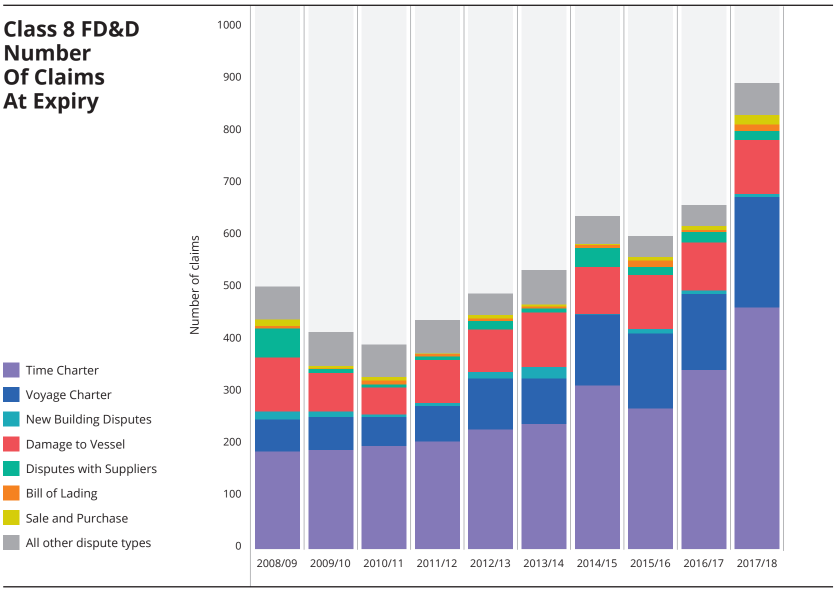
The at expiry FD&D statistics for the 2017/18 policy are consistent with that trend in that the number of files opened in the policy year is higher than in all recent policy years, while the external costs incurred is lower than in all recent policy years.

Of the 893 files opened on expiry, 67% carried a nil reserve – implying that no external costs were expected to be incurred.

The position described above is illustrated in the graphs below.

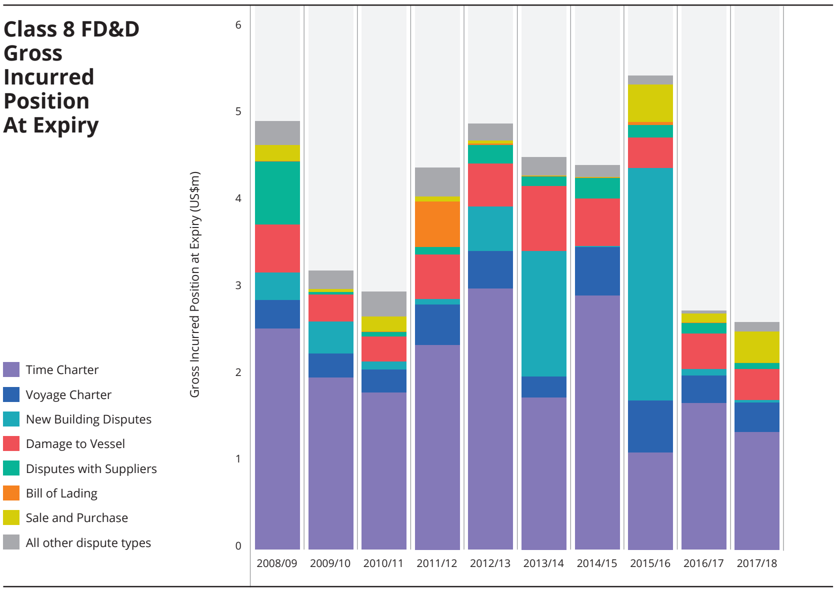
Rachel Bellsham-Revell
Management
London

Class 8 FD&D Number Of Claims At Expiry



Rodney Cook
Management
London

Class 8 FD&D Gross Incurred Position At Expiry



Ian Carter & Reine Gomis
Management
London

INVESTMENTS

For much of the year under review, financial markets delivered strong returns, with fixed income markets performing in line with expectations and the return from risk assets exceeding expectations. The backdrop for this equity-led rally in asset prices was a synchronised upswing in global economic growth, supportive fiscal policy and healthy corporate earnings. This rally was abruptly halted, with valuations going into reverse in January and February 2018, when market volatility spiked as investor inflation and interest rate expectations were revised higher.

Following the turn in economic conditions in mid-2016, the global economy gained further momentum throughout 2017 with growth expectations being revised higher on a consistent basis. In the US, the Trump administration's various policy set-backs – such as its failure to repeal 'Obamacare' and successful challenges barring enforcement of its attempts to restrict travel to the US from targeted countries – appeared to have little if any lasting impact on financial markets. In contrast, markets did react – and reacted positively – to the tax reform measures passed in December 2017, which are expected to boost US GDP growth by over 1.0% through to the end of the current administration's term in office.

Recorded wage growth in the US of 2.9% in January 2018 was ahead of market expectations and was seen by many as the trigger for a bout of financial market volatility as the Association's financial year came to a close. In the first instance, the negative impact was confined to fixed income assets, with higher inflation and interest expectations driving yields higher and valuations lower. In February, there was further downward pressure applied to fixed income valuations and this was accompanied by equity market losses which largely offset the strong early 2018 calendar year gains.

Economic conditions in Europe surprised positively throughout the year on the back of both stronger domestic and external demand. Growth across the Euro Area jumped from 1.5% in 2016 to 2.4% in 2017. Leading indicators suggest underlying momentum remains robust for 2018.

The Association achieved a 5.5% overall return for the year on its invested assets and cash holdings, contributing US$18.9m to operating performance net of associated investment expenses. A respectable return achieved by the core fixed income component of the portfolio over the course of the first ten months was eroded in January and February 2018, although the full year return remained positive. Equities performed ahead of expectations, such that there was a need to rebalance the portfolio twice during the year to keep the asset allocation in alignment with the Association's risk appetite. Asset allocation was broadly stable throughout the year under review and at the year-end date the allocation was: 61% fixed income; 22% equities; and 17% cash.

The Association additionally recognised a foreign exchange translation gain of US$2.0m on its London property asset which forms part of the reported investment return for the year.

REINSURANCE

The Association and its mutual Members benefit from the International Group's Pooling and General Excess of Loss reinsurance arrangements. The individual Club retention is US$10m for the 2018/19 policy year, with Clubs retaining a further 7.5% of their claims impacting the pooling layer from US$50m to US$100m. From US$10m up to US$100m excluding the 7.5% individual Club retention referred to above, plus a 30% share of the first US$500m layer of the General Excess of Loss programme, claims costs are retained by the Pool and shared amongst its 13 member 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 are reinsured by their respective Hydra Cells for their Pool claim exposure in excess of US$30m on a per event basis, with Hydra having purchased its own retrocession reinsurance for claims costs exceeding US$80m.

The Group's Pooling and market reinsurance cover is augmented by the Association's own reinsurance programme. The purpose of this programme is to align the Association's underwriting risk exposure across all business lines with its articulated risk appetite in the most cost and capital efficient manner. Following a detailed review conducted during the 2017 calendar year, changes were made for the current policy year which have the twin benefits of strengthening levels of cover in the most adverse of claims years and reducing the overall premium spend. Regrettably, these changes led to a couple of longstanding reinsurance partners terminating their relationship with the Association. The Association is nevertheless grateful for and has valued the support provided by these reinsurers over many years.

Paul Bixley
Management
London

Deborah Yu
Management
London

Claire Boddy
Management
London

Garry Stevens
Management
London

REGULATORY

During the last year, we completed the final phase of Solvency II implementation, producing our first Regular Supervisory Report (RSR), a private report to our prudential insurance supervisor, the Prudential Regulation Authority (PRA); and a Solvency & Financial Condition Report (SFCR), 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 publicly disclosed through this Annual Report and is also published on our website.

EU regulatory change continues apace with the General Data Protection Regulation (GDPR) requiring significant effort to ensure all our systems and controls are compliant, and staff have been trained and assessed on the new requirements prior to the commencement date on 25 May 2018. The level of potential fines on businesses for data privacy breaches under GDPR are of a much greater magnitude than under the current Data Protection Act and all companies operating in the EU and holding personal data therefore need to treat compliance as a high priority. In co-operation with other clubs in the International Group of P&I Clubs, guidance on GDPR has been issued to our Membership.

Transposition of the new EU Insurance Distribution Directive (IDD) in the UK by our conduct regulator, the Financial Conduct Authority (FCA), has resulted in additional rules applying to the Association covering the way in which we deal with our policyholders. Although we don't assess these as being particularly onerous, we have nevertheless initiated a project to ensure that all new requirements will be addressed prior to the anticipated commencement date of 1 October 2018.

The UK regulators' focus on senior management accountability continues, and the existing Senior Insurance Managers Regime (SIMR) implemented in 2016 is now being realigned with that in place for the banking industry. The new Senior Managers and Certification Regime (SM&CR) will apply from 10 December 2018. It requires enhanced and new processes, extends the application of conduct rules, and introduces a new "duty of responsibility" which will enable the PRA and FCA to hold senior managers in insurance firms accountable if a breach of a regulatory requirement takes place within their area of responsibility.

In September 2017, the UK government enacted the Criminal Finances Act which makes it an offence for the Association, or its Managers, not to prevent facilitation of tax evasion whether in the UK or elsewhere in the world. In a similar way to the UK Bribery Act 2010, this new Act requires firms to have in place "reasonable prevention procedures". Accordingly, existing bribery prevention controls are being used to mitigate risks arising, supplemented by additional training material and revisions to financial crime documentation. In some instances, these controls may result in additional information being requested from Members and other payees before payments are made.

As mentioned by the Chairman in his report, investigations have continued during the year to identify the Board's preferred location for the establishment of a new EU subsidiary through which the Association will be able to continue underwriting its European business once the UK leaves the EU single market. Although the official date for "Brexit" is 29 March 2019, recent political developments indicate that a 'transitional' period until 31 December 2020 is now almost certain to be agreed, during which existing EU 'passporting' rights will continue to be available to UK insurers. Notwithstanding this, work on the Association's contingency planning has continued with a further round of meetings with short-listed insurance regulators having taken place. These investigations resulted in the Board's decision to establish a new insurance subsidiary and apply for an underwriting licence in Cyprus. Considerable time and resources will be required to ensure the new structure is ready to continue servicing the Association's European business once Brexit does become a reality.

INTERNATIONAL GROUP

The International Group of P&I Clubs monitors the operation and reinsurance of the claims pooling arrangements, making changes when necessary so that they continue providing the Association and other participating clubs with efficient high-level reinsurance protection. 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.

Information on subjects addressed by the Group during the year 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.

The 40,570 bulk carrier, ***Nan Xin 17,*** is entered in the London P&I Club by Zhejiang Nan Xin Shipping Ltd.

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:

Robert A. Ho	John L. Lawrence	John J. Raggio	Sophocles N. Zoullas	Vassilis J. Laliotis

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:

Zhongyi (John) Su	Vassilis Papageorgiou	John M. Lyras	Bjorn A. Tietgens	John J. Raggio	Ali Aktoprak
Wenguang Ji	Giangiacomo Serena	John L. Lawrence	James L. Marshall	Nikolaos Veniamis	

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 2018

Notice of Meeting

Notice is hereby given that the one hundred and forty second Annual General Meeting of the Members of The London Steam-Ship Owners' Mutual Insurance Association Limited will be held at The Hilton Athens Hotel, 46 Vassilissis Sofias Avenue, Athens, 11528, Greece at 10.30am on Tuesday 16 October 2018 or as soon thereafter as the meeting of the Members' Committee terminates, for the following purposes:

1. To receive and consider the Financial Statements for the year ended 20 February 2018 and the reports of the Board and Auditors.
2. To elect members of the Board and the 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 2018

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

Our Opinion

We have audited the financial statements of The London Steam-Ship Owners' Mutual Insurance Association Limited (the 'Association') for the year ended 20 February 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Statement of Financial Position – Holding Company and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and the Association's affairs as at 20 February 2018 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 Companies Act 2006.

Use of our report

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Area of focus	Work performed to address this risk	Observations and conclusions
Valuation of Technical Provisions		
The valuation of technical provisions is a key area of estimation within the financial statements. There is a risk that inappropriate assumptions and judgement are made when determining the valuation of technical provisions. Technical provisions relate to four main classes of business, P&I Retained, P&I Pool, FD&D and Occupational Disease. The gross technical provisions figure in the current year is $298m, comprised of case reserves and IBNR. Case reserves rely on: • The expertise of the claims handlers and their experience of assessing claims in different jurisdictions and of different types; • The correct and timely entry of claims information onto the claims system before the year end. IBNR modelling is reliant on: • Relevant claims data being input correctly into actuarial models. • The application of appropriate actuarial techniques, judgement and assumptions.	In respect of case reserves, we performed the following: • Tested the controls surrounding the setting and revision of case reserves. • Agreed all case reserves above our performance materiality level to supporting documentation. • Tested an additional sample of case reserves, including Occupational Disease claims. • Tested the revision of case reserves in the year and around the year end in conjunction with testing of claims payments. In respect of IBNR: • We engaged our actuarial experts to perform a review of the appropriateness of the methodologies employed by the Association when setting technical provisions and to re-project technical provisions in order to conclude whether technical provisions are sufficient to cover the liabilities of the Association. • For P&I retained, P&I Pool and FD&D claims, our actuarial experts re-projected the ultimate cost of the latest fifteen policy years using a stochastic model based around chain ladder methodology in order to provide both an independent benchmark and to provide assurance of the reasonableness of the Association's own projections. • For Occupational Disease claims, our actuarial experts assessed the model employed by the Association and re-projected using industry standard occupational disease models in order to gain assurance of the Association's projections. • Our actuarial experts obtained, reviewed and challenged the report by the Association's actuary and held meetings with the Association's actuary to discuss process, assumptions, findings and the results of the re-projection.	Our actuarial experts consider that technical provisions are appropriate and adequate for the liabilities of the Association and that the methodologies employed are consistent with their expectations and best market practice. The re-projections did not identify any anomalies or fundamental differences in the valuation of technical provisions held. The review of the occupational disease model concluded that it was appropriate for the nature of the occupational disease liabilities of the Association. No errors were noted in our testing of case reserves. Having considered the work performed, we consider that the technical provisions are fairly disclosed in the financial statements.
Valuation of Reinsurers' Share of Technical Provisions		
Reinsurers' share of technical provisions are significant to the financial statements due to the extensive reinsurance coverage. The Association's reinsurance programme covers sub-pool, pool and International Group (IG) cover across a number of policy years with varying retention limits, which adds complexity and increases the risk of misstatement. The recording of reinsurance recoveries also relies on manual processes and calculations.	We performed the following audit procedures to address this risk: • Considered the expected impact of changes to reinsurance arrangements (including retentions and premiums) on the financial statements and assessed whether the reported results were consistent with our understanding of the programme. • Recalculated and assessed reinsurance recoveries for reinsurers' share of case reserves. • Reviewed the methodology applied to calculate reinsurers' share of IBNR, as part of our actuarial review. • Assessed the security of reinsurers and potential impact on the valuation of reinsurers' recoveries.	Our testing did not identify any errors or matters of audit concern. Having considered the work performed, we consider that the reinsurers' share of technical provisions are fairly disclosed in the financial statements.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Based on our professional judgement, we determined materiality for the consolidated financial statements as whole to be US$5,500,000. The principal determinant in this assessment was the Association's net assets, which we consider to be the most relevant benchmark, as this determines the availability of reserves to provide distributions or need to make supplementary calls to cover shortfalls in reserves, which are key performance measures of the Members. Our materiality represents approximately 3% of Net Assets.

In respect of the company balance sheet, we applied a lower level performance materiality of US$1,000,000 to all non-technical line items.

An overview of the scope of the audit

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.

Effectiveness of the audit on the identification of possible fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Association. We consider the primary fraud risks to be around the valuation of technical provisions and reinsurers' share of technical provisions, our approach to these areas has been addressed within the areas of risk identified on page 19.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Respective responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

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

Matters on which we are required to address

We were first appointed by the Board in 1991 following the merger with Bagshaw & Co who were the auditors prior to that date.

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

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

Thomas Reed
Senior Statutory Auditor

For and on behalf of
Moore Stephens LLP
Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

3 May 2018

Consolidated Statement of Comprehensive Income by Class for the year ended 20 February 2018

		TOTAL		CLASS 5 – P&I		CLASS 7 – WAR RISK		CLASS 8 – FD&D	
	Note	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
TECHNICAL ACCOUNT – GENERAL BUSINESS									
Earned Premium, Net of Reinsurance:									
Calls & Gross Premiums		**102,258**	104,002	**91,819**	93,667	**94**	59	**10,345**	10,276
Reinsurance Premiums		**(20,817)**	(19,927)	**(18,908)**	(17,877)	**(6)**	(9)	**(1,903)**	(2,041)
Net Premiums Written		**81,441**	84,075	**72,911**	75,790	**88**	50	**8,442**	8,235
Change in Provision for Unearned Premiums:									
Calls & Premiums		**(530)**	(1,111)	**(549)**	(1,042)	**-**	-	**19**	(69)
Reinsurers' Share		**424**	(254)	**424**	(254)	**-**	-	**-**	-
Net Earned Premium	**4**	**81,335**	82,710	**72,786**	74,494	**88**	50	**8,461**	8,166
Foreign Exchange Gains/ (Losses)		**1,127**	(802)	**1,152**	(830)	**-**	-	**(25)**	28
Allocated Investment Return transferred from Non-Technical account		**20,950**	26,663	**19,717**	25,075	**-**	-	**1,233**	1,588
Claims Incurred, Net of Reinsurance:									
Gross Claims Paid	**5**	**(79,532)**	(139,268)	**(70,669)**	(131,087)	**-**	-	**(8,863)**	(8,181)
Reinsurance Recoveries	**6**	**8,405**	51,514	**7,095**	51,335	**-**	-	**1,310**	179
Net Claims Paid		**(71,127)**	(87,754)	**(63,574)**	(79,752)	**-**	-	**(7,553)**	(8,002)
Change in Provision for Claims:									
Gross Amount		**723**	33,170	**818**	32,017	**-**	-	**(95)**	1,153
Reinsurers' Share		**(13,498)**	(14,888)	**(13,233)**	(15,063)	**-**	-	**(265)**	175
Net Change in Provision for Claims		**(12,775)**	18,282	**(12,415)**	16,954	**-**	-	**(360)**	1,328
Net Incurred Claims		**(83,902)**	(69,472)	**(75,989)**	(62,798)	**-**	-	**(7,913)**	(6,674)
Net Operating Expenses	**8**	**(12,655)**	(11,542)	**(10,996)**	(10,118)	**(30)**	(25)	**(1,629)**	(1,399)
Balance Carried to Non-Technical Account		**6,855**	27,557	**6,670**	25,823	**58**	25	**127**	1,709
NON-TECHNICAL ACCOUNT									
Balance Transferred from Technical Account		**6,855**	27,557	**6,670**	25,823	**58**	25	**127**	1,709
Investment Income	**7**	**24,281**	14,219	**22,852**	13,397	**-**	-	**1,429**	822
Unrealised (Losses)/Gains on Investments		**(874)**	14,778	**(820)**	13,877	**-**	-	**(54)**	901
Investment Expenses		**(2,457)**	(2,334)	**(2,315)**	(2,199)	**-**	-	**(142)**	(135)
Allocation of Investments to Technical Account		**(20,950)**	(26,663)	**(19,717)**	(25,075)	**-**	-	**(1,233)**	(1,588)
Balance on Ordinary Activities before Taxation		**6,855**	27,557	**6,670**	25,823	**58**	25	**127**	1,709
Taxation Expense	**9**	**(225)**	(252)	**(215)**	(238)	**-**	-	**(10)**	(14)
Balance on Ordinary Activities after Taxation		**6,630**	27,305	**6,455**	25,585	**58**	25	**117**	1,695
Accumulated Reserves at 20 February 2017		**188,012**	160,707	**171,809**	146,224	**4,408**	4,383	**11,795**	10,100
Accumulated Reserves at 20 February 2018		**194,642**	188,012	**178,264**	171,809	**4,466**	4,408	**11,912**	11,795

There are no recognised gains and losses other than those included in the Consolidated Statement of Comprehensive Income.
The notes on pages 26 to 39 form part of these Financial Statements.

Consolidated Statement of Financial Position by Class as at 20 February 2018

		TOTAL		CLASS 5 – P&I		CLASS 7 – WAR RISK		CLASS 8 – FD&D	
	Note	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000
ASSETS									
Financial Investments	**11**	**374,143**	353,776	**352,138**	332,486	**2,952**	2,950	**19,053**	18,340
Investment Property	**12**	**17,130**	15,168	**16,102**	14,258	**-**	-	**1,028**	910
Reinsurance Assets	**14**	**79,085**	92,583	**76,091**	89,324	**-**	-	**2,994**	3,259
Insurance & Other Receivables	**13**	**15,907**	15,726	**13,519**	14,407	**23**	-	**2,365**	1,319
Reinsurers' Share of Unearned Premium	**14**	**843**	419	**843**	419	**-**	-	**-**	-
Deferred Acquisition Costs		**249**	126	**242**	116	**-**	-	**7**	10
Cash & Cash Equivalents		**25,483**	24,118	**18,809**	16,063	**1,491**	1,564	**5,183**	6,491
TOTAL ASSETS		**512,840**	501,916	**477,744**	467,073	**4,466**	4,514	**30,630**	30,329
LIABILITIES									
Insurance Liabilities	**14**	**298,144**	298,867	**280,577**	281,395	**-**	-	**17,567**	17,472
Unearned Premium	**14**	**1,641**	1,111	**1,592**	1,042	**-**	-	**49**	69
Current Taxation		**54**	20	**54**	20	**-**	-	**-**	-
Insurance & Other Payables	**15**	**18,359**	13,906	**17,257**	12,807	**-**	106	**1,102**	993
TOTAL LIABILITIES		**318,198**	313,904	**299,480**	295,264	**-**	106	**18,718**	18,534
RESERVES									
Accumulated Reserves		**194,642**	188,012	**178,264**	171,809	**4,466**	4,408	**11,912**	11,795
TOTAL LIABILITIES & RESERVES		**512,840**	501,916	**477,744**	467,073	**4,466**	4,514	**30,630**	30,329

John M. Lyras
Member of the Board
25 April 2018

Ian E. Gooch
Member of the Board
25 April 2018

The notes on pages 26 to 39 form part of these Financial Statements.

Statement of Financial Position – Holding Company only as at 20 February 2018

Company number: 10341

	Note	2018 US$'000	2017 US$'000
ASSETS			
Investment in Group Undertakings and Participated Interests	10	**5,811**	5,811
Other Financial Investments	11	**45,133**	33,155
Reinsurance Assets	14	**296,060**	292,436
Insurance & Other Receivables	13	**10,416**	10,510
Reinsurers' Share of Unearned Premium	14	**1,399**	931
Deferred Acquisition Costs		**249**	126
Cash & Cash Equivalents		**13,732**	6,724
TOTAL ASSETS		**372,800**	349,693
LIABILITIES			
Insurance Liabilities	14	**299,847**	298,867
Unearned Premium	14	**1,641**	1,111
Current Taxation		**54**	20
Insurance & Other Payables	15	**48,284**	35,033
TOTAL LIABILITIES		**349,826**	335,031
RESERVES			
Accumulated Reserves		**22,974**	14,662
TOTAL LIABILITIES & RESERVES		**372,800**	349,693

John M. Lyras
Member of the Board
25 April 2018

Ian E. Gooch
Member of the Board
25 April 2018

The notes on pages 26 to 39 form part of these Financial Statements.

Consolidated Statement of Cash Flows for the year ended 20 February 2018

	Note	2018 US$'000	2017 US$'000
Cash Generated From Operating Activities			
Cash Flows From Operating Activities	**16**	**9,216**	(10,479)
Tax Paid		**(191)**	(273)
Net Cash Inflows/(Outflows) from Operating Activities		**9,025**	(10,752)
Cash Generated from Investing Activities			
Payments to acquire investments		**(349,395)**	(330,521)
Receipts for the sale of investments		**338,203**	350,043
Interest Received		**442**	226
Net Cash (Outflows)/Inflows from Investing Activities		**(10,750)**	19,748
(Decrease)/Increase in Cash & Cash Equivalents		**(1,725)**	8,996
Cash & Cash Equivalents at 21 February 2017		**24,118**	18,259
Effects of Foreign Exchange on Cash & Cash Equivalents		**3,090**	(3,137)
Cash & Cash Equivalents at 20 February 2018		**25,483**	24,118

The notes on pages 26 to 39 form part of these 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.

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

2.1.4.1 The Ultimate Liability Arising from Claims Made Under Insurance Contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. At the end of the reporting period, and as presented in Note 14, the Association's technical provisions for claims amounted to US$298.1m gross of reinsurance recoveries.

2.2 Underwriting Activities

2.2.1 Calls & Premiums

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

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

2.2.2 Claims & Related Expenses

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

2.2.3 Reinsurance Premiums

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

2.2.4 Reinsurance Recoveries

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

2.2.5 Claims Handling Costs

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

2.2.6 Technical Provisions

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

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

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

When determining the appropriate level of IBNR provision for occupational disease claims, the Directors additionally take into consideration the findings from the most recently available review of reserves for this category of claims. An updated review of occupational disease claims to estimate the ultimate cost and the appropriate level of IBNR was performed in the 2017/18 financial year.

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

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

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

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

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

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

2.3 Other Accounting Policies

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

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

2.3.3 Foreign Exchange
Assets and Liabilities have been translated, where applicable, at the rates ruling at 20 February 2018.

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 & 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.

	2018 US$'000	2017 US$'000
Increase in Loss Ratio by 5 percentage points		
Gross	**(5,086)**	(5,145)
Net	**(4,067)**	(4,136)
Decrease in Loss Ratio by 5 percentage points		
Gross	**5,086**	5,145
Net	**4,067**	4,136

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 2018	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	**399,626**	**98,010**	**41,327**	**39,933**	**220,356**	**399,626**
Investment Property	**17,130**	**-**	**-**	**-**	**17,130**	**17,130**
Receivables	**15,907**	**15,907**	**-**	**-**	**-**	**15,907**
Reinsurance Assets	**79,085**	**6,485**	**15,817**	**12,891**	**43,892**	**79,085**
Reinsurer Share of UPR	**843**	**843**	**-**	**-**	**-**	**843**
Deferred Acquisition Costs	**249**	**249**	**-**	**-**	**-**	**249**
Total Assets	**512,840**	**121,494**	**57,144**	**52,824**	**281,378**	**512,840**

Liabilities at 20 February 2018	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	**298,144**	**58,734**	**75,430**	**45,914**	**118,066**	**298,144**
Unearned Premium	**1,641**	**1,641**	**-**	**-**	**-**	**1,641**
Taxation	**-**	**-**	**-**	**-**	**-**	**-**
Payables	**18,359**	**18,359**	**-**	**-**	**-**	**18,359**
Total Liabilities	**318,144**	**78,734**	**75,430**	**45,914**	**118,066**	**318,144**

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

3.3 Market Risk

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

Interest Rate Risk

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

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

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

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

Increase of 100 Basis Points	Change in Valuation US$'000
As at 20 February 2018	**12,224**
As at 20 February 2017	11,884

Equity Price Risk

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

A 10% decrease in the value of equity securities held at the year-end date would have decreased accumulated reserves at that date by US$8,648k (2017: US$8,384k).

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 2018	US$ US$'000	GBP US$'000	EUR US$'000	Other US$'000	Total US$'000
Total Assets	**457,295**	**28,304**	**10,502**	**16,739**	**512,840**
Total Liabilities	**252,370**	**14,842**	**14,821**	**36,111**	**318,144**
Net Asset Position	**204,925**	**13,462**	**(4,319)**	**(19,372)**	**194,696**

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

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

	20 February 2018 US$'000	20 February 2017 US$'000
Strengthening		
Sterling	**673**	265
Euro	**(216)**	(414)
Weakening		
Sterling	**(673)**	(265)
Euro	**216**	414

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 2018	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB & Below US$'000	Other US$'000	Total US$'000
Reinsurance Assets	**79,085**	**-**	**6,629**	**66,288**	**6,146**	**22**	**79,085**
RI Share of UPR	**843**	**-**	**-**	**843**	**-**	**-**	**843**
Receivables	**15,907**	**12**	**3,399**	**1,946**	**1,200**	**9,350**	**15,907**
Deferred Acquisition Costs	**249**	**-**	**-**	**-**	**-**	**249**	**249**
Total	**96,084**	**12**	**10,028**	**69,077**	**7,346**	**9,621**	**96,084**

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

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 2018	SOFP US$'000	AAA US$'000	AA US$'000	A US$'000	BBB & US$'000	Other US$'000	Total US$'000
Cash & Investments	**399,626**	**5,839**	**119,343**	**97,812**	**38,482**	**138,150**	**399,626**

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

3.5 Capital Management

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

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

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

Note 4: Net Earned Premium

All contracts are concluded in the United Kingdom

	2018 US$'000	2017 US$'000
Gross Calls & Premiums Written during the Year	**102,258**	104,002
Reinsurance Premiums paid during the Year:		
Group Excess of Loss	**(10,937)**	(11,256)
Other Reinsurance Premiums	**(9,880)**	(8,671)
Net Written Premium	**81,441**	84,075
Change in Provision for Unearned Premiums	**(530)**	(1,111)
Change in Provision for Reinsurers' Share of Unearned Premiums	**424**	(254)
Net Earned Premium	**81,335**	82,710

Note 5: Gross Claims Paid

	2018 US$'000	2017 US$'000
Gross Payment of Association's Own Claims	**71,187**	127,710
Association's Share of Other Clubs' Pool Claims	**8,345**	11,558
Gross Claims Paid	**79,532**	139,268

Note 6: Reinsurance Recoveries

	2018 US$'000	2017 US$'000
Association's Claims under Pooling Agreement	**3,013**	42,451
Recoveries under Group Excess of Loss Policies	**1,165**	1,549
Recoveries under Sundry Reinsurance Policies	**4,227**	7,514
Reinsurance Recoveries	**8,405**	51,514

Note 7: Investment Income

	2018 US$'000	2017 US$'000
Income from Listed Investments	**9,831**	9,819
Realised Gains on Investments	**14,008**	4,173
Bank & Other Interest Receivable	**442**	227
Investment Income	**24,281**	14,219

Note 8: Net Operating Expenses

	2018 US$'000	2017 US$'000
Acquisition Costs	**9,215**	8,376
Administration Expenses	**3,440**	3,166
Net Operating Expenses	**12,655**	11,542

Included with Net Operating Expenses are the following:

	2018 US$'000	2017 US$'000
Auditors' Remuneration	**212**	222
Other non-statutory audit related expenses	**28**	68
Board and Committee Fees	**468**	376
Change in Deferred Acquisition Costs	**124**	126

Other than the Board and Committee Members, the Association does not employ any staff (2017: nil).

Note 9: Taxation charge for the year

	2018 US$'000	2017 US$'000
Current Taxation on Income for the Reporting Period	**54**	20
Overseas Taxation	**171**	232
Income Tax Expense	**225**	252

Note 10: Investments in Group Undertakings & Participating Interests

	2018 US$'000	2017 US$'000
Shares in Group Undertakings & Participating Interests	**5,811**	5,811

The Companies listed below are wholly owned subsidiaries.

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

On 2 March 2017, The London and Channel Islands P&I Association Limited was dissolved and removed from the Guernsey Registry.

	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

At 20 February 2018, 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 (2017: US$5,791k).

The following table summarises the Financial Statements of Hydra for the Year Ended 20 February 2018:

	2018 US$'000	2017 US$'000
Summary Income Statement		
Net Earned Premiums	**4,872**	7,898
Net Claims Payments	**(5,861)**	(6,791)
Net Investment Income	**50**	85
Other Expenses	**(50)**	198
(Deficit)/Surplus for the year	**(989)**	1,390
Summary Statement of Financial Position		
Financial Investments	**29,404**	36,566
Reinsurance Assets	**2,902**	1,507
Other Receivables	**356**	118
Insurance Liabilities	**27,490**	23,129
Other Payables	**14**	15
Net Assets	**5,158**	15,047

Note 11: Financial Investments

As at 20 February 2018	Consolidated Market Value US$'000	 Cost US$'000	Holding Market Value US$'000	 Cost US$'000
Equity Securities	**86,481**	**69,498**	**-**	**-**
Debt Securities	**242,509**	**246,241**	**-**	**-**
Unlisted Investments	**12,348**	**12,244**	**12,328**	**12,244**
Unlisted Deposits	**32,805**	**32,805**	**32,805**	**32,805**
Total Investments	**374,143**	**360,788**	**45,133**	**45,049**

As at 20 February 2017	Consolidated Market Value US$'000	 Cost US$'000	Holding Market Value US$'000	 Cost US$'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

Included in financial investments is US$11,900k (2017: US$11,900k) 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$27k (2017: US$51k) are included in the Statement of Financial Position. These relate to forward contracts purchased close to the year-end date due to the favourable US$ 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 2018	Classification A US$'000	Classification B US$'000	Classification C US$'000	Total US$'000
Equity Securities	**86,481**	**-**	**-**	**86,481**
Debt Securities & Other	**111,647**	**176,015**	**-**	**287,662**
Total	**198,128**	**176,015**	**-**	**374,143**

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

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 increased by US$1,962k to US$17,130k (2017: US$2,335k FX Loss, Property Value: US$15,168k).

Note 13: Insurance & Other Receivables

	Consolidated		Holding	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Amounts arising from Insurance Operations	**8,216**	5,676	**8,216**	5,676
Amounts arising from Reinsurance Operations	**1,674**	3,518	**1,495**	3,518
Amounts arising from Investing Operations	**3,392**	3,404	**-**	-
Prepayments & Accrued Income	**2,537**	3,052	**617**	1,240
Other Receivables	**88**	76	**88**	76
Total Insurance & Other Receivables	**15,907**	15,726	**10,416**	10,510

Amounts arising from Insurance Operations includes US$1,093k not overdue, US$5,448k overdue by up to six months, US$1,260k overdue by more than six months but less than 12 months, and US$415k overdue by more than 12 months.

Note 14: Net Insurance Liabilities

Balances on Insurance & Reinsurance Contracts

	Consolidated		Holding	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Insurance Liabilities				
Members Claims	**243,949**	251,932	**243,949**	251,932
Association's Share of Pool Claims	**54,195**	46,935	**55,898**	46,935
Unearned Premium	**1,641**	1,111	**1,641**	1,111
	299,785	299,978	**301,488**	299,978
Reinsurance Assets				
Market Reinsurance	**16,879**	17,496	**240,893**	242,686
Pool Recoveries	**62,206**	75,087	**55,167**	49,750
Reinsurers' Share of Unearned Premium	**843**	419	**1,399**	931
	79,928	93,002	**297,459**	293,367
Net Insurance Liabilities	**219,857**	206,976	**4,029**	6,611

Movement in Insurance & Reinsurance Contracts

	Consolidated		Holding	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Insurance Liabilities & Unearned Premium				
Claims Outstanding				
As at 21 February	**298,867**	332,037	**298,867**	332,037
Claims paid in the Year	**(79,532)**	(139,266)	**(79,532)**	(139,266)
Changes to Reserves in the Year	**78,809**	106,096	**80,512**	106,096
As at 20 February	**298,144**	298,867	**299,847**	298,867
Unearned Premium				
As at 21 February	**1,111**	-	**1,111**	-
Calls & Premiums Written in the Year	**102,258**	104,002	**102,258**	104,002
Calls & Premiums Earned in the Year	**(101,728)**	(102,891)	**(101,728)**	(102,891)
As at 20 February	**1,641**	1,111	**1,641**	1,111
Total Insurance Liabilities & Unearned Premiums	**299,785**	299,978	**301,488**	299,978

	Consolidated 2018 US$'000	Consolidated 2017 US$'000	Holding 2018 US$'000	Holding 2017 US$'000
Reinsurance Assets & Reinsurers' Share of Unearned Premium				
Reinsurers' Share of Claims Outstanding				
As at 21 February	**92,583**	107,471	**292,436**	319,904
Reinsurance Recoveries made in the Year	**(8,405)**	(51,514)	**(11,270)**	(55,992)
Changes to Reserves in the Year	**(5,093)**	36,626	**14,894**	28,524
As at 20 February	**79,085**	92,583	**296,060**	292,436
Reinsurers' Share of Unearned Premium				
As at 21 February	**419**	673	**931**	67
Reinsurance Premium Written in the Year	**20,817**	19,927	**25,689**	27,825
Reinsurance Premium Earned in the Year	**(20,393)**	(20,181)	**(25,221)**	(26,961)
As at 20 February	**843**	419	**1,399**	931
Total Reinsurance Assets & Reinsurers' Share of Unearned Premium	**79,928**	93,002	**297,459**	293,367
Total Net Technical Provisions	**219,857**	206,976	**4,029**	6,611

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 2018	Other US$'000	2011/12 US$'000	2012/13 US$'000	2013/14 US$'000	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000	Total US$'000
Gross Ultimate Claims									
Current Year		92,371	88,812	86,115	109,245	66,328	67,198	72,701	
One Year Later		81,236	82,990	79,950	110,405	66,033	67,786		
Two Years Later		78,412	79,066	76,143	107,238	66,979			
Three Years Later		80,073	72,882	74,906	101,206				
Four Years Later		77,726	70,497	71,451					
Five Years Later		77,360	67,951						
Six Years Later		76,625							
Gross Cumulative Paids									
Current Year		18,992	14,760	12,290	20,688	12,590	24,450	11,255	
One Year Later		48,654	37,189	32,600	40,925	30,105	39,021		
Two Years Later		62,740	52,890	44,171	66,001	39,907			
Three Years Later		69,823	57,576	50,876	71,367				
Four Years Later		70,334	60,466	56,334					
Five Years Later		71,585	62,442						
Six Years Later		73,811							
Gross Outstanding Claims	127,582	2,814	5,509	15,117	29,839	27,072	28,765	61,446	**298,144**

Net Claims Development

As at 20 Feb 2018	Other US$'000	2011/12 US$'000	2012/13 US$'000	2013/14 US$'000	2014/15 US$'000	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000	Total US$'000
Net Ultimate Claims									
Current Year		90,523	88,772	85,760	93,132	64,544	60,044	72,639	
One Year Later		75,871	82,941	79,382	89,177	62,130	60,514		
Two Years Later		72,121	78,981	75,771	86,718	63,089			
Three Years Later		72,398	72,803	74,238	84,848				
Four Years Later		69,688	70,459	71,146					
Five Years Later		69,880	67,913						
Six Years Later		69,092							
Net Cumulative Paids									
Current Year		18,925	14,760	12,290	20,688	11,761	20,734	11,255	
One Year Later		47,007	37,189	35,523	40,925	29,234	33,237		
Two Years Later		57,753	52,852	43,908	57,014	39,027			
Three Years Later		63,052	57,538	50,612	62,106				
Four Years Later		63,270	60,428	56,071					
Five Years Later		64,452	62,404						
Six Years Later		66,573							
Net Outstanding Claims	60,491	2,519	5,509	15,075	22,742	24,062	27,277	61,384	**219,059**

Note 15: Insurance & Other Payables

	Consolidated		Holding	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Amounts arising out of Insurance Operations	**3,285**	770	**3,285**	770
Amounts arising out of Reinsurance Operations	**321**	245	**321**	245
Amounts arising out of Investing Operations	**10,568**	8,327	**-**	-
Accruals & Deferred Income	**2,920**	2,788	**2,589**	2,070
Other Payables	**1,265**	1,776	**42,089**	31,948
Total Insurance & Other Payables	**18,359**	13,906	**48,284**	35,033

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

	2018 US$'000	2017 US$'000
Group Operating Surplus Before Tax for the Year	**6,855**	27,557
Changes in Estimated Gross Outstanding Claims	**(723)**	(33,170)
Changes in Estimated Net Outstanding Claims	**13,498**	14,888
Changes in Unearned Premium	**530**	1,111
Changes in Reinsurers' Share of Unearned Premium	**(424)**	254
Changes in Deferred Acquisition Costs	**(124)**	(126)
Realised & Unrealised (Losses)/Gains on Investments	**(11,136)**	(21,530)
Interest income	**(442)**	(226)
Working Capital Movements		
Changes in Receivables	**(213)**	(3,552)
Changes in Payables	**4,484**	1,181
Foreign Exchange Adjustment	**(3,089)**	3,134
Net Cash Inflows/(Outflows) from Operating Activities	**9,216**	(10,479)

Note 17: Related Party Transactions

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

Most of the Directors are representatives or agents of member companies and other than the insurance and membership interests in the Directors' companies, the Directors have no financial interest in the Association. The Board delegates the day-to-day operations of the Association to A. Bilbrough & Co. Limited. Three Directors of A. Bilbrough & Co. Limited are Directors of the Association. The Association paid management fees of £13.3m (2016/17: £12.8m) to A. Bilbrough & Co. Limited for the year.

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

Note 18: Average Expense Ratio – P&I Only

In accordance with the International Group Agreement 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 2018. The Ratio of 9.68% (2017: 9.51%) 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	2015/16 Policy Year US$'000	2016/2017 Policy Year US$'000	2017/2018 Policy Year US$'000	Total US$'000
Year to 20 February 2018				151	1,509	89,502	
Year to 20 February 2017				255	92,242	-	
Year to 20 February 2016				98,655	-	-	
Total Earned Calls & Premiums				99,061	93,751	89,502	
Earned Reinsurance Premiums				(20,403)	(19,234)	(17,198)	
Net Earned Premium				**78,658**	**74,517**	**72,304**	
Net Claims Paid	**1**			(47,890)	(43,359)	(23,491)	
Net Operating Expenses	**2**			(12,567)	(13,354)	(7,880)	
Investment Income				18,016	10,779	20,470	
Balance available for Outstanding Claims		**152,563**	**88,754**	**36,217**	**28,583**	**61,403**	**367,520**
Allocation from Reserves at 20 February 2017			17,983	-	-	-	17,983
Net Insurance Liabilities			(97,971)	(23,475)	(25,211)	(57,829)	(204,486)
		152,563	8,766	12,742	3,372	3,574	181,017
Unrealised Losses on Investments & Property		(2,699)	-	-	-	-	(2,699)
Allocation to/(from) Closed Years at 20 February 2018		8,766	(8,766)	-	-	-	-
Undiscounted Policy Year Balances		**158,630**	**-**	**12,742**	**3,372**	**3,574**	**178,318**

Class 8 – FD&D Policy Year Statement

	Notes	Reserves US$'000	Closed Years US$'000	2015/16 Policy Year US$'000	2016/2017 Policy Year US$'000	2017/2018 Policy Year US$'000	Total US$'000
Year to 20 February 2018				48	335	9,974	
Year to 20 February 2017				253	9,976	-	
Year to 20 February 2016				11,057	-	-	
Total Earned Calls & Premiums				11,358	10,311	9,974	
Earned Reinsurance Premiums				(2,103)	(2,055)	(1,892)	
Net Written Premium				**9,255**	**8,256**	**8,082**	
Net Claims Paid				(7,633)	(5,083)	(3,210)	
Net Operating Expenses	**2**			(1,437)	(1,539)	(1,501)	
Investment Income				1,125	672	1,277	
Balance available for Outstanding Claims		**11,362**	**3,008**	**1,310**	**2,306**	**4,648**	**22,634**
Allocation from Reserves at 20 February 2017			1,112	1,185	1,726	-	4,023
Net Insurance Liabilities			(3,164)	(1,787)	(3,667)	(5,955)	(14,573)
		11,362	956	708	365	(1,307)	12,084
Unrealised Losses on Investments & Property		(172)	-	-	-	-	(172)
Allocation from Closed Years at 20 February 2018		(351)	(956)	-	-	1,307	-
Undiscounted Policy Year Balances		**10,839**	**-**	**708**	**365**	**-**	**11,912**

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 2015/16 – 2017/18 has been determined on the basis of current provisional percentage shares. Final percentage shares may differ.

	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000
Association's Share of Other Clubs Pool Claims	8,135	1,301	1,804

Note 2: Net Operating Expenses

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

	CLASS 5 – P&I			CLASS 8 – FD&D		
	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000
Exchange Adjustments	1,698	3,048	**(3,040)**	96	116	**(93)**
Admin Expenses	3,433	2,879	**3,159**	461	490	**561**
Brokerage & Commission	7,436	7,427	**7,761**	880	933	**1,033**
Total	12,567	13,354	**7,880**	1,437	1,539	**1,501**

Note 3: Net Outstanding Claims

	CLASS 5 – P&I				CLASS 8 – FD&D			
	Closed Years US$'000	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000	Closed Years US$'000	2015/16 US$'000	2016/17 US$'000	2017/18 US$'000
Gross Claims Outstanding								
Retained	147,237	16,954	20,615	41,576	5,074	2,871	3,667	5,955
Pool	23,351	8,446	6,083	16,315	-	-	-	-
	170,588	25,400	26,698	57,891	5,074	2,871	3,667	5,955
Reinsurers' Share of Claims Outstanding								
Pool	(63,512)	-	(397)	-	-	-	-	-
Group XL/Hydra	(3,968)	-	-	-	-	-	-	-
Other	(5,137)	(1,925)	(1,090)	(62)	(1,910)	(1,084)	-	-
	(72,617)	(1,925)	(1,487)	(62)	(1,910)	(1,084)	-	-
Net Claims	97,971	23,475	25,211	57,829	3,164	1,787	3,667	5,955

Appendix II: Release Calls (Unaudited)

At the meeting on 25 April 2018, the Board reviewed the Open Policy Years and Release Call rates and reached the following decisions:

	Class 5 – P&I	Class 8 – FD&D
2015/2016	5.0% of the Annual Call	5.0% of the Annual Call
2016/2017	12.5% of the Annual Call	12.5% of the Annual Call
2017/2018	15.0% of the Annual Call	15.0% of the Annual Call
2018/2019	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:

2013/2014 Nil (Closed)
2014/2015 Nil (Closed)
2015/2016 5.0% of the Annual Call (as stated above)
2016/2017 12.5% of the Annual Call (as stated above)
2017/2018 15.0% of the Annual Call (as stated above)

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