



STEAMSHIP MUTUAL

Report and Accounts 2009

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The Steamship Mutual Underwriting Association (Bermuda) Limited

(Incorporated under the laws of Bermuda)
and its subsidiary companies

Managers

Steamship Mutual Management (Bermuda) Limited,
Washington Mall 1, P.O. Box HM 447,
Hamilton HM BX, Bermuda
Telephone: (441) 295 4502
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Managers' representatives

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Aquatical House, 39 Bell Lane, London E1 7LU
Telephone: 020 7247 5490 / 020 7895 8490
www.simsl.com

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Representative office in Brazil

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Notice of Meeting

Notice is hereby given that the Thirty Fifth Annual General Meeting of the Members of the Association will be held at the Fairmont Vier Jahreszeiten Hotel, Hamburg, Germany, on Tuesday, 28th July 2009 at 09:05 hours for the following purposes:

- 1 The Secretary to confirm that Notice of the Meeting has been given.
- 2 To approve the Minutes of the last Meeting of the Members.
- 3 To receive the Directors' Report and Accounts for the year ended 20th February 2009.
- 4 To fix the number of Directors for the ensuing year.
- 5 To elect Directors retiring in rotation. Under the Bye-laws of the Company, one-third of the Directors are required to retire annually by rotation. The Directors retiring by rotation are Mr A. Abraha, Mr C. J. Ahrenkiel, Ms D. M. Ho, Mr D. T. Hsu, Mr H. M. Juniel, Mr J. M. Macdonald, Mr A. L. Marchisotto, Mr P. S. Panagopulos and Mr M. Verde. Being eligible, they offer themselves for re-election.
6. To elect Directors retiring in compliance with Bye-law 46.
The Directors retiring are Mr O. H. Fritzner and Mr J. R. Lean and, being eligible, they offer themselves for re-election.
- 7 To appoint Auditors and to authorise the Directors to agree their remuneration.
- 8 Confirmation of acts.
- 9 To transact any other ordinary business of the Company.

By Order of the Board

S. Davis

Secretary

12th May 2009

N.B. A Member who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote in his place. The instrument appointing a proxy should be in the form prescribed by the Bye-laws and must be deposited with the Secretary at Clarendon House, Church Street West, P.O. Box HM 666, Hamilton HM CX, Bermuda, not less than 48 hours before the time specified for the holding of the Meeting. A copy of the form of proxy prescribed by the Bye-laws is enclosed.

Directors

Directors

O. H. Fritzner, (Chairman)
A. Abraha, Ethiopian Shipping Lines
C. J. Ahrenkiel, Ahrenkiel Consulting Services
J. L. Brean, QC, Metcalf & Co. (retired 28th October 2008)
S-M. Edey, Sloman Neptun Schiffahrts AG. (appointed 27th January 2009)
H. Golparvar, Islamic Republic of Iran Shipping Lines
I. Grimaldi, Grimaldi Holdings SpA.
S. Hajara, The Shipping Corporation of India Ltd.
D. M. Ho, Magsaysay Maritime Corp.
D. T. Hsu, Far Eastern Textile Ltd.
H. M. Juniel, Reederei F. Laeisz GmbH.
C. S. Kim, Korea Line Corp.
J. R. Lean
J. M. Macdonald, Conyers, Dill & Pearman
C. J. Madinabeitia, Tradewind Tankers S.A. (appointed 27th January 2009)
A. L. Marchisotto, Moran Holdings, Inc.
S. Mehta, Essar Global
J. W. Murray, Hapag-Lloyd
S. V. Naqvi, Pakistan National Shipping Corp.
P. S. Panagopulos, Magna Marine Inc.
H. F. L. Schoeller, Columbia Shipmanagement Ltd.
B. K. Sheth, The Great Eastern Shipping Co. Ltd.
M. Souri, National Iranian Tanker Co.
A. Tung, Island Navigation Corp. International Ltd.
M. Verde, Augustea Ship Management Srl.
Wang, Y-G., China Shipowners Mutual Assurance Association
Wei, J-F., China Ocean Shipping (Group) Co.
A. Zacchello, Seaarland Shipping Management BV. (appointed 27th January 2009)

Secretary

S. Davis, Conyers, Dill & Pearman

Managers

Steamship Mutual Management (Bermuda) Limited

Registered office

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

Administrative offices

Washington Mall 1,
P.O. Box HM 447,
Hamilton HM BX,
Bermuda

Telephone: (441) 295 4502
Telefax: (441) 292 8787

Report of the Directors

The Directors have pleasure in presenting their Report and the Accounts of the Association for the year ended 20th February 2009.

Principal activities

The principal activities of the Association were the insurance and reinsurance of Protection and Indemnity (P&I) risks, and of Freight, Demurrage and Defence (FD&D) risks on behalf of Members. The total entered tonnage as at 20th February 2009 stood at approximately 75 million GT.

Directors

The Directors of the Association are as shown on page 3.

In accordance with the Act of Incorporation, as amended on 18th April 1984, and the Bye-laws, the undermentioned Directors of the Association hold office until the Annual General Meeting to be held in Hamburg on 28th July 2009, when they retire:

A. Abraha, C. J. Ahrenkiel, O. H. Fritzner, D. M. Ho, D. T. Hsu, H. M. Juniel, J. R. Lean, J. M. Macdonald, A. L. Marchisotto, P. S. Panagopulos, M. Verde.

Being eligible, all the above offer themselves for re-election.

Audit Committee

The Committee acts on behalf of the Board in considering the Association's financial statements and its external and internal audit activities. In so doing the Committee liaises with the Managers and external auditors in monitoring the quality of all reporting which contains material financial information, assessing the Association's internal control systems, and advising the Board on the effectiveness and objectivity of the internal and external auditors.

The Committee meets four times a year, prior to each meeting of the full Board and is currently comprised of the following Directors: Mr J. R. Lean (Chairman), Mr O. H. Fritzner, Mr H. M. Juniel and Mr S. Mehta.

In discharging its responsibilities the Committee receives regular financial and management reports from the Managers. The Committee establishes the scope of the reporting, both to itself and the Board, and continually assesses the quality and adequacy of this information. The Committee monitors the effectiveness of the Managers' activities with respect to their financial, regulatory, audit and control responsibilities with a specific focus on any issues of enhanced strategic importance or which present a significant risk to the Association. Within the past year the Committee's work has included the following matters:

- against the background of a rapidly developing and broad based deterioration in investment markets, increased monitoring of available capital resources against business plan targets, regulatory and other external requirements;
- in conjunction with the Managers and the Corporate Trustee of The Steamship Mutual Trust, developing measures to reduce investment risk and restore capital resources;
- reviewing the quarterly reports of the internal audit function;
- monitoring the developing requirements of the EU Solvency II Directive and reviewing the results of the Association's participation in the regulator's consultations with the insurance market (QIS4);
- monitoring changes in the wider regulatory and compliance environment including licensing and taxation issues;

Audit Committee Continued

- reviewing the ongoing development of the internal capital model, including the assessment of the margin of prudence within the combined claims reserves of the Associations and The Steamship Mutual Trust;
- benchmarking the results of the Association against those of its peers; and
- conducting the periodic review of the Agreement with the Managers and monitoring senior level changes in the management organisation.

Free reserves

The balance on the Technical Account showed a surplus of US\$ 10.37 million for the financial year. The overall surplus for the financial year of US\$ 0.68 million reflects the above technical surplus together with losses on investments and other activities.

Free reserves increased from US\$ 74.83 million to US\$ 75.52 million.

Underwriting

During the year mutual premium was levied as follows:

- for the year 2008/09 (Class 1 – P&I) 100% mutual premium;
- for the year 2008/09 (Class 2 – FD&D) 100% mutual premium.

The 2005/06 year was closed in May 2008.

During the second half of 2008 the climate for investment worldwide deteriorated dramatically, with financial institutions facing the most serious threat to their capital resources in living memory, as the result of a simultaneous collapse in the equity and non-government bond markets. Inevitably these changes affected the combined investment holdings of the Association and The Steamship Mutual Trust.

At their meeting in January 2009, the Directors were advised that, despite positive underwriting results, these substantial investment losses had eroded the combined free reserves to an unacceptable level.

Against this background, the Directors decided that additional capital be raised, by levying additional Class 1 Protection and Indemnity premium for the open policy years, as follows:

- | | | | | | |
|-------|------|-------|--------------------|-------|---------------------------------------|
| (i) | 2006 | 12.5% | additional premium | 12.5% | to be debited on 20th May 2009; |
| (ii) | 2007 | 14% | additional premium | 7% | to be debited on 20th August 2009 and |
| | | | | 7% | to be debited on 20th May 2010; |
| (iii) | 2008 | 20% | additional premium | 10% | to be debited on 20th August 2009 and |
| | | | | 10% | to be debited on 20th August 2010. |

This additional premium is expected to raise a total of approximately US\$ 80 million.

Gross premium including these calls totalled US\$ 370.93 million compared to US\$ 248.16 million last year.

The Directors have set the release call for both Class 1 (P&I) and Class 2 (FD&D) at 25% of mutual premium for all open years.

Free reserves

As at 20th February 2009, the combined free reserves of the Association and The Steamship Mutual Trust stood at US\$ 168.50 million, taking account of the additional premium raised. Discounted at a rate of 2.5% over ten years to take account of "run-off", the combined free reserve figure is US\$ 204.1 million compared with US\$ 215.2 million discounted at 3.5% last year. For the year under review, the Directors had ordered a general increase in Class 1 premiums of 15%. At the 2009 renewal the general increase was 17.5%.

Tonnage

The level of owned entered tonnage grew by 3.0 million GT during the year. The 2009 renewal saw both a number of new entries and cancellations, resulting in a modest net increase in owned entered tonnage. However taking the year on year increase into account for both owned and chartered entries, the overall total entered tonnage rose to 75 million GT.

Report of the Directors Continued

Underwriting Continued

The Association's policy is to achieve diversity of vessel types and trades within its underwriting portfolio. Similarly, the Association seeks to keep a worldwide spread of owners. This policy of avoiding an over concentration in any one area minimises the adverse effects of market differences or economic difficulties in particular trades or regions. Analysis of gross tonnage by geographical area will be included within the Management Highlights to be published in June 2009.

Pooling and reinsurance

The Association's reinsurance programme for the 2008/09 policy year was arranged in conjunction with other member Clubs of the International Group of Protection and Indemnity Clubs ("The Group"). The policy provided an ultimate limit of US\$ 3,043 million in excess of US\$ 7 million, except in relation to oil pollution claims, which were subject to an overall limit of US\$ 1,000 million.

Pooling

For 2009/10, the individual Club retention, before Pooling with other members of the International Group, will remain at US\$ 7 million each claim, and the upper limit of the Pool remains at US\$ 50 million each event.

Hydra Insurance Company Limited ("Hydra")

With effect from 20th February 2009, the liabilities of the Association under the Group Pooling Agreement for the top layer of the Pool (from US\$ 30 million to US\$ 50 million each event) and for the Group's retention of 25% of the first US\$ 500 million layer of the General Excess Loss contract will continue to be reinsured into Hydra. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

Excess Loss cover

The Group's Excess of Loss programme was renewed with the same structure as for the expiring year. Overall premium ratings increased but were consolidated with expiring rates for Hydra. The Group continues to retain a 25% co-insurance of the first layer of the contract, from US\$ 50 million to US\$ 500 million each event.

The limit of the supplementary pooled cover for a restricted range of risks covered by the "Bio-Chem" exclusions in War Risk policies remains at US\$ 30 million, any one event each vessel, for the 2009/10 policy year.

US oil pollution

The Group continues to levy special surcharges for vessels carrying persistent oil as cargo to the USA. The rates of surcharge for such voyages will reduce by 10% in 2009/10.

Charterers' cover

The Association provides cover for P&I and other risks for charterers, reinsured outside the Pool. Limits up to US\$ 500 million are provided for P&I and a variety of limits for other risks.

The Steamship Mutual Trust

At the beginning of the financial year, the Association arranged, through its wholly-owned subsidiary, The Steamship Mutual Underwriting Association (Reinsurance) Limited, to extend the existing reinsurance contract with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of The Steamship Mutual Trust ("The Trust"), a duly authorised insurer under the Insurance Act 1978 of Bermuda, to cover all its retained liabilities in respect of the 2008/09 policy year, on existing terms and conditions. The Chairman of the Association is an ex-officio Director of the Corporate Trustee which administers The Trust. The beneficiaries under The Trust are the Members of the Association. These arrangements performed entirely satisfactorily during the year.

Claims

Gross claims and related expenses, including Pool claims, paid during the financial year, decreased by 4.0% to US\$ 252.64 million in respect of all policy years, as compared to US\$ 263.14 million during the previous financial year, 2007/08. After recoveries from the Group Pool and Excess of Loss contract, claims paid for all years during the financial year amounted to US\$ 185.77 million, a decrease of US\$ 31.93 million (14.6%) over the previous year. Claims paid by the Association, net of reinsurance recoveries but including claims handling costs, increased from US\$ 24.16 million, in 2007/08, to US\$ 31.91 million during the year to 20th February 2009. This increase reflects claims retained within the Hydra cell.

Net claims paid during the financial year, on a combined basis including both Associations and Trust, amounted to US\$ 186.77 million, a decrease of 13.2% from the figure (US\$ 215.27 million) for the 2007/08 financial year. Net outstanding claims rose by US\$ 7.27 million to US\$ 481.14 million, an increase of 1.5% from the net outstanding claims as at 20th February 2008.

Gross claims arising in respect of the policy year 2008/09, including IBNRs, are projected to be US\$ 225.47 million, a decrease of 25.5% over 2007/08 (US\$ 302.82 million). Claims net of reinsurance recoveries in respect of the policy year amounted to US\$ 192.63 million on a combined basis, a reduction of 2.0% to the comparable figure for 2007/08 (US\$ 196.49 million).

During the policy year, through the Association's membership of the International Group, the Managers have monitored developments concerning the operation or reform of international conventions governing the liabilities of shipowners in respect of pollution from bunkers and hazardous and noxious substances, salvage, passengers, and the carriage of goods by sea. Within Europe, developments in relation to the EU's Third Maritime Safety Package have also been monitored, as have developments in the United States concerning ballast water regulations. In the Middle East and Africa the issue of maritime security has come under considerable scrutiny as a result of the increased threat to shipping from pirate activity off the coast of Somalia.

The 11th, 12th, and 13th issues of "Sea Venture" were published in May and October 2008 and February 2009, and throughout the year the Managers also published various articles and news bulletins of topical interest on the Association's website. The 2008/09 edition of the Association's DVD guide to casualty investigation and claims handling, "A Team Effort" was distributed to Members and correspondents in May 2008. In February 2009, the Managers issued a new DVD entitled "Collision Course" on the subject of collision avoidance.

The Managers have continued to work with Videotel Marine International in the production of DVD and computer based training materials to be used on-board ships. During 2008 production work was undertaken on new programmes dealing with dangerous bulk cargoes, and emergency response on container vessels. These programmes are due to be completed in 2009. Further details of the Association's loss prevention activities will be included in the Management Highlights.

Policy year statements

The figures in Appendices I and II to this Report are prepared under the accounting policies and in the format used within the financial statements providing a summary and breakdown by both class of business and underwriting year. No allowance has been made for the allocation of any future investment income.

Investments

The total level of cash and investments held by the Association decreased by 1.0% to US\$ 92.93 million. The total loss on financial investments was US\$ 8.75 million and includes a property revaluation deficit of US\$ 4.05 million.

Report of the Directors

Continued

Rules

With the support of advice from the Association's lawyers, the Directors have approved Rule changes effective from 20th February 2009, to clarify the scope of existing cover and to reflect initiatives in the Group. Apart from several relatively minor textual amendments to improve clarity and consistency with the Pooling Agreement, the most significant changes are:

Class 1 – Protection and Indemnity

Rule Nos. 15 and 43

Where guarantees or other forms of security are provided to the Association in relation to release calls and uncovered matters respectively, the Managers may now, if they deem it necessary, require the Member to provide alternative acceptable counter security in the event, for example, that a guarantor's financial status deteriorates.

Rule No. 17

In line with the agreement amongst the Group Clubs, and consequent changes to the Pooling Agreement which have been introduced for the 2009 policy year, the application of the "pay first" rule may be suspended in certain circumstances in respect of the personal injury claims of crew members.

Rule Nos. 20 and 21

Amendments to Rule 20 (Nuclear Risks) and 21 (War Risks) recognise that the Association may provide certificates of financial responsibility in accordance with the 2001 Bunkers Convention, subject to the proviso that the Member may be required to indemnify the Association in respect of exclusions from cover of war and nuclear risks.

Rule No. 40

There is now a contractual right on the part of the Association to recover from a Member, or former Member, the legal costs of taking proceedings to recover a debt or to obtain security.

Class 2 – Freight, Demurrage and Defence

Rule No. 5 xiii

Cover for claims arising in connection with the building, conversion, alteration, mortgage, sale or purchase of a Member's ship is subject to the terms of such cover being specifically agreed by the Managers.

Charterers' Terms

In addition, for renewal or acceptance of charterers' entries from 20th February 2009, a new set of terms has been introduced by the Association. In developing these new terms, the Managers have attempted to ensure consistency with the principles of cover enshrined in the existing Class 1 P&I Rules of the Association. These terms have been specifically drafted for charterers' entries and consolidate in a separate cover the conditions upon which charterer members will be entered for Class 1 P&I liabilities and, if such cover is requested, DTH and time charterers' bunkers risks. The result is a set of dedicated terms which clearly set out the scope and extent of cover available to charterers. FD&D cover, when provided to charterers, will continue to be available upon the terms set out in the Association's Class 2 Rules.

The Steamship Mutual Underwriting Association Limited ("SMUA")

Under an agreement made on 20th February 2003, the Association entered into a reinsurance contract with SMUA under which the Association indemnified SMUA in respect of 95% of the first US\$ 30 million of its net underlying liabilities in respect of each policy year and 100% of any such liabilities which exceed US\$ 30 million in respect of each policy year. From 20th February 2006 the indemnity was reduced to 90% of the first US\$ 30 million of SMUA's net underlying liabilities. From 20th February 2009 the indemnity is in respect of 90% of the first US\$ 50 million of SMUA's net underlying liabilities and 100% of any excess over US\$ 50 million. All Members of SMUA are automatically Members of the Association and thus beneficiaries of The Trust.

Management Highlights

The Management Highlights will be published in June 2009.

Statement of Directors' responsibilities

The Directors have prepared financial statements for each financial year in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and United Kingdom accounting principles applicable to insurers. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association. They are also responsible for the system of internal control, for safeguarding the assets of the Association and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

O. H. Fritzner

Chairman
New York, USA

12th May 2009

Appendix I – Policy Year Statement – All Classes

Open Policy Years – All Classes	2006/07 US\$ 000s	2007/08 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
Gross premium	222,022	248,916	283,785	754,723
Less:				
Group Excess Loss reinsurance premium	(12,482)	(15,293)	(17,310)	(45,085)
Other reinsurance premium	(980)	(1,100)	(1,221)	(3,301)
The Trust reinsurance premium	(150,938)	(170,596)	(199,867)	(521,401)
Net premium	57,622	61,927	65,387	184,936
Gross claims paid				
Own claims paid	(116,724)	(182,631)	(26,103)	(325,458)
Group Pool claims	(24,772)	(19,671)	(1,280)	(45,723)
Claims administration expenses	(13,506)	(21,979)	(21,230)	(56,715)
	(155,002)	(224,281)	(48,613)	(427,896)
Less:				
Group Excess Loss reinsurance recoveries	–	45,438	–	45,438
Group Pool reinsurance recoveries	4,097	58,146	–	62,243
The Trust reinsurance recoveries	132,014	94,159	27,392	253,565
Net claims paid	(18,891)	(26,538)	(21,221)	(66,650)
Own claims outstanding including IBNRs	(82,959)	(151,519)	(177,995)	(412,473)
Group Pool claims outstanding including IBNRs	(18,978)	(17,845)	(20,089)	(56,912)
Future claims administration expenses	(702)	(1,780)	(6,801)	(9,283)
Less:				
Group Excess Loss reinsurance recoveries	–	56,490	–	56,490
Group Pool reinsurance recoveries	6,167	22,978	25,453	54,598
The Trust recoveries	91,824	84,749	167,524	344,097
Net provision for claims outstanding	(4,648)	(6,927)	(11,908)	(23,483)
Brokerage	(15,547)	(16,026)	(17,622)	(49,195)
Underwriting administration expenses	(4,487)	(5,817)	(6,669)	(16,973)
Other expenses	(11,424)	(5,182)	(9,487)	(26,093)
Balance on the technical account	2,625	1,437	(1,520)	2,542
Additional premium to be charged	14,879	16,677	26,342	57,898
Brokerage payable on additional premium	(878)	(973)	(1,526)	(3,377)
Additional premium receivable from SMUA	4,308	7,040	13,782	25,130
The Trust reinsurance premium	(18,287)	(22,717)	(38,552)	(79,556)
Net product of additional premium	22	27	46	95
Investment income (including realised and unrealised)	4,024	4,234	(8,748)	(490)
Other income	–	–	131	131
Taxation	(2)	(12)	–	(14)
Open policy years funds available	6,669	5,686	(10,091)	2,264

Appendix I – Policy Year Statement – All Classes

	Total US\$ 000s
Closed Policy Years – All Classes	
Available balance as at 20th February 2008	73,020
Add:	
Balance of 2005/06 year as at 20th February 2008	2,528
Movements during financial year:	
Net premium	(32)
Net claim recoveries	(655)
Expense reductions	(5)
Other income	(183)
Available balance as at 20th February 2009	74,673
Own claims outstanding including IBNRs	(212,557)
Group Pool claims outstanding including IBNRs	(29,860)
Future claims administration expenses	(1,895)
Less:	
Group Excess Loss reinsurance recoveries	2,702
Group Pool reinsurance recoveries	31,858
The Trust recoveries	207,417
Net provision for claims outstanding	(2,335)
Closed policy years funds available	72,338
Summary	
Open and closed years funds available	74,602
Reinsurance balance and statutory reserve	914
Total projected funds available	75,516

Appendix II – Policy Year Statement – P&I Class

	2006/07 US\$ 000s	2007/08 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
Open Policy Years – P&I Class				
Gross premium	198,243	218,627	249,574	666,444
Less:				
Group Excess Loss reinsurance premium	(12,482)	(15,293)	(17,310)	(45,085)
Other reinsurance premium	(980)	(1,100)	(1,221)	(3,301)
The Trust reinsurance premium	(132,195)	(146,495)	(172,648)	(451,338)
Net premium	52,586	55,739	58,395	166,720
Gross claims paid				
Own claims paid	(105,972)	(174,810)	(22,525)	(303,307)
Group Pool claims	(24,772)	(19,671)	(1,280)	(45,723)
Claims administration expenses	(11,167)	(17,925)	(17,206)	(46,298)
	(141,911)	(212,406)	(41,011)	(395,328)
Less:				
Group Excess Loss reinsurance recoveries	–	45,438	–	45,438
Group Pool reinsurance recoveries	4,097	58,146	–	62,243
The Trust reinsurance recoveries	121,263	86,338	23,813	231,414
Net claims paid	(16,551)	(22,484)	(17,198)	(56,233)
Own claims outstanding including IBNRs	(78,970)	(140,578)	(156,109)	(375,657)
Group Pool claims outstanding including IBNRs	(18,978)	(17,845)	(20,089)	(56,912)
Future claims administration expenses	(629)	(1,572)	(5,891)	(8,092)
Less:				
Group Excess Loss reinsurance recoveries	–	56,490	–	56,490
Group Pool reinsurance recoveries	6,167	22,978	25,453	54,598
The Trust recoveries	87,835	73,808	145,638	307,281
Net provision for claims outstanding	(4,575)	(6,719)	(10,998)	(22,292)
Brokerage	(14,047)	(14,382)	(15,758)	(44,187)
Underwriting administration expenses	(3,916)	(5,031)	(5,725)	(14,672)
Other expenses	(10,144)	(4,528)	(8,255)	(22,927)
Balance on the technical account	3,353	2,595	461	6,409
Additional premium to be charged	14,879	16,677	26,342	57,898
Brokerage payable on additional premium	(878)	(973)	(1,526)	(3,377)
Additional premium receivable from SMUA	4,308	7,040	13,782	25,130
The Trust reinsurance premium	(18,287)	(22,717)	(38,552)	(79,556)
Net product of additional premium	22	27	46	95
Investment income (including realised and unrealised)	3,597	3,737	(7,657)	323
Other income	–	–	131	131
Taxation	(2)	(10)	–	(12)
Open policy years funds available	6,970	6,349	(7,019)	6,300

Appendix II – Policy Year Statement – P&I Class

Closed Policy Years – P&I Class	Total US\$ 000s			
Available balance as at 20th February 2008				64,313
Add:				
Balance of 2005/06 year as at 20th February 2008				3,416
Movements during financial year:				
Net premium				(110)
Net claim recoveries				(644)
Expense reductions				4
Other income				(183)
Available balance as at 20th February 2009				66,796
Own claims outstanding including IBNRs				(202,981)
Group Pool claims outstanding including IBNRs				(29,860)
Future claims administration expenses				(1,846)
Less:				
Group Excess Loss reinsurance recoveries				2,702
Group Pool reinsurance recoveries				31,858
The Trust recoveries				197,841
Net provision for claims outstanding				(2,286)
Closed policy years funds available				64,510
Summary	All Classes	FD&D	Others	P&I
Open and closed years funds available	74,602	191	3,601	70,810
Reinsurance balance and statutory reserve	914			
Total projected funds available	75,516	191	3,601	70,810

Consolidated Income and Expenditure Account

for the year ended 20th February 2009

	Note	2009 US\$ 000s	2008 US\$ 000s
Technical Account			
Earned premium, net of reinsurance			
Gross premium	2	370,930	248,157
Outward reinsurance premium:			
Group Excess Loss		(17,924)	(17,007)
The Trust	3	(283,107)	(163,298)
a Earned premium, net of reinsurance		69,899	67,852
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	252,644	263,139
Reinsurers' share:			
Group Pool and Excess Loss	4	(66,870)	(45,436)
The Trust	4	(153,868)	(193,540)
b Net claims paid		31,906	24,163
Change in the provision for claims			
Gross amount	5	65,078	17,485
Reinsurers' share:			
Group Pool and Excess Loss	5	(61,791)	(19,367)
The Trust	5	(12,403)	13,596
c Change in the net provision for claims		(9,116)	11,714
b+c=d Claims incurred, net of reinsurance		22,790	35,877
e Net operating expenses	6	36,739	26,507
a-d-e Balance on the technical account for general business		10,370	5,468
Non-Technical Account			
Balance on the general business technical account		10,370	5,468
Investment income	7	(1,410)	5,505
Unrealised losses on investments	8	(3,291)	(1,270)
Investment management expenses		(887)	(795)
Other income	9	(52)	(454)
Other charges	11	(4,047)	–
Taxation	10	–	(12)
Surplus for the financial year		683	8,442

The results for both years are in respect of continuing operations.

There are no recognised gains or losses in either year other than the transactions reported in the above income and expenditure account.

The accompanying notes to these accounts form an integral part of this income and expenditure account.

Consolidated Balance Sheet

as at 20th February 2009

	Note	2009 US\$ 000s	2008 US\$ 000s
Assets			
Investments			
Land and buildings	11	6,910	10,957
Other financial investments	12	78,806	75,528
Reinsurers' share of technical provisions			
Claims outstanding	5	697,162	622,968
Debtors			
Debtors arising out of direct insurance operations	13	99,954	14,591
Debtors arising out of reinsurance operations	14	10,527	33,345
Other debtors	15	2,509	2,761
Other assets			
Cash at bank and in hand		7,217	7,415
Prepayments and accrued income			
Deferred acquisition costs		159	167
Other prepayments and accrued income		541	1,332
Total assets		903,785	769,064
Liabilities			
Capital and reserves			
Free reserves	16	75,516	74,833
Technical provisions			
Provision for unearned premiums		1,295	1,163
Claims outstanding	5	722,981	657,903
Provisions for other risks and charges			
Provision for taxation		–	12
Creditors			
Creditors arising out of direct insurance operations		4,402	4,831
Creditors arising out of reinsurance operations	17	92,060	16,336
Other creditors	18	7,531	13,986
Total liabilities		903,785	769,064

The accompanying notes to these accounts form an integral part of this balance sheet.

These financial statements were approved by the Board of Directors on 12th May 2009 and signed on their behalf by:

O. H. Fritzner

Chairman

H. M. Juniel

Director

Managers:

Steamship Mutual Management (Bermuda) Limited

Consolidated Cash Flow Statement

for the year ended 20th February 2009

	2009 US\$ 000s	2008 US\$ 000s
Surplus on ordinary activities before tax		
a Operating surplus before taxation after interest	683	8,454
(Decrease/increase in general insurance technical provisions	(8,984)	11,791
Unrealised loss on property revaluation	4,047	–
Unrealised losses on investments	3,291	1,270
(Increase)/decrease in debtors	(61,494)	6,601
Increase/(decrease) in creditors	68,840	(13,364)
b	5,700	6,298
a+b=c Net cash inflow from operating activities	6,383	14,752
Cash flow statement		
Net cash inflow from operating activities	6,383	14,752
Taxation (paid)/recoverable	(12)	6
	6,371	14,758
Cash flows were invested as follows:		
d Decrease in cash holdings	(198)	(260)
Net portfolio investment		
Sale of bonds and loans	(8,152)	(2,426)
Purchase of money market instruments	10,312	713
Increase in cash on short term deposit	4,409	16,731
e	6,569	15,018
d+e=f Net investment of cash flows	6,371	14,758
Movement in opening and closing portfolio investments net of financing		
d Net cash outflow for the period	(198)	(260)
e Portfolio investments	6,569	15,018
d+e=f Movement arising from cash flows	6,371	14,758
g Changes in market values and exchange rate effects	(3,291)	(1,270)
f+g Total movement in portfolio investments net of financing	3,080	13,488
Portfolio investments net of financing at 20th February 2008	82,943	69,455
Portfolio investments net of financing at 20th February 2009	86,023	82,943

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

The consolidated accounts have been prepared in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and generally accepted United Kingdom accounting principles applicable to insurers. The Association has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 and amended in December 2006 by the Association of British Insurers ("ABI SORP").

After making enquiries, the Directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

(b) Basis of consolidation

The Group accounts consolidate the accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited and its subsidiary undertakings The Steamship Mutual Underwriting Association (Reinsurance) Limited, Steamship Mutual Property Holdings Limited, The Steamship Mutual Underwriting Association (Europe) Limited and its share of Hydra Insurance Company Limited at 20th February 2009.

(c) Calls and premiums written

Calls and premiums, less returns, comprise the total premiums receivable for the whole period of cover provided by contracts incepting during the financial year. All premiums are shown gross of commission payable to intermediaries.

(d) Unearned premiums

The proportion of the premiums written relating to periods of cover after the year end is carried forward as a provision for unearned premiums.

(e) Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new business, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(f) Claims and related expenses

Claims and related expenses are charged to the income and expenditure account when they have been settled. A provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date. A provision for claims incurred but not reported is established on a statistical basis having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

(g) Reinsurance premiums and recoveries

Payments made to and recoveries from other Associations under the Group Pooling arrangements are brought into the income and expenditure account when debited or credited. Other reinsurance premiums are brought into the income and expenditure account on an accruals basis.

Notes on the Accounts

Continued

1. Accounting policies Continued

(h) Land and buildings

Land and buildings are revalued every three years and are held at the revalued amount. Any losses or reversal of losses arising upon revaluation are recognised in the income and expenditure account.

(i) Other financial investments

Quoted investments have been valued at their mid-market value as at the balance sheet date.

Unquoted investments are held at cost less any provision for impairment in value. The unrealised gains and losses on the movement during the year in the market value of investments compared to their cost are included in the non-technical account.

(j) Debtors

Receivables arising from insurance and reinsurance operations are reviewed for impairment throughout the financial year and as at the balance sheet date.

(k) Foreign currencies

Monetary assets and liabilities, other than unquoted investments, are converted at the rate of exchange ruling at the balance sheet date. Unquoted investments are included at their original dollar cost.

Income and expenditure items are translated at the rate of exchange ruling at the relevant month end. All exchange differences are included in the income and expenditure account. Land and buildings have been translated at the historic rate of exchange prevailing on the date of revaluation.

The rates of exchange ruling on the balance sheet date and used for the purpose of preparing the accounts were as follows:

		2009	2008
Canadian dollars	C\$	1.259	1.012
Euro	€	0.788	0.678
UK sterling	£	0.699	0.513

(l) Allocation to policy years and classes

Mutual premium, additional premium, fixed premium, reinsurance premium payable, claims and reinsurance recoveries are allocated to the policy years and classes to which they relate. Administration expenses, investment income and exchange gains or losses are allocated to the current policy year in line with total premium income.

2. Gross premium

	2009 US\$ 000s	2008 US\$ 000s
Mutual and fixed premiums written	286,804	247,751
Deferred premium and releases	1,229	19,812
Additional premium	83,029	–
Movement in unearned premiums	(132)	(77)
Movement in outstanding deferred mutual premiums	–	(19,329)
	370,930	248,157
Gross premium by destination		
Europe	129,960	100,849
North America	106,156	45,664
Far East	69,579	52,863
Africa and Middle East	28,717	20,665
Latin America	19,025	14,582
Indian Sub-Continent	17,493	13,534
	370,930	248,157

Gross premium relates predominantly to one class of business: Protection and Indemnity.

3. Reinsurance contracts

- (a) The Association and its subsidiary company, The Steamship Mutual Underwriting Association (Reinsurance) Limited (note 19) have contracts whereby they reinsure all outstanding Protection and Indemnity risks and Freight, Demurrage and Defence risks of SMUA for all policy years up to 20th February 1985. From 20th February 1985 until 20th February 1987 the Association both accepted from and ceded to SMUA reinsurance in respect of Freight, Demurrage and Defence risks.
- (b) Under contracts dated 11th March 1983, the Association, through its subsidiary company, The Steamship Mutual Underwriting Association (Reinsurance) Limited, reinsured with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited all of its Protection and Indemnity risks and Freight, Demurrage and Defence risks for the period up to 20th February 1983 and subsequently further contracts for each of the policy years ended, respectively, 20th February 1984 through to 20th February 2009.
- (c) Under an agreement made on the 20th February 2003, the Association agreed to indemnify SMUA in respect of 95% of the first US\$ 30 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million for all policy years through to 2005/06 and in respect of 90% of the first US\$ 30 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million for subsequent policy years.

Notes on the Accounts

Continued

4. Claims paid – gross amount

	2009 US\$ 000s	2008 US\$ 000s
Claims and related expenses	210,518	207,378
Group Pool claims	20,828	33,659
Claims administration expenses	21,298	22,102
	252,644	263,139
Less reinsurers' share		
Group Pool	19,707	43,767
Group Excess Loss	47,163	1,669
The Trust	153,868	193,540
	220,738	238,976
Net claims paid	31,906	24,163

5. Change in net provision for claims

	2009 US\$ 000s	2008 US\$ 000s
Gross outstanding claims		
Provision brought forward	(657,903)	(640,418)
Provision carried forward	722,981	657,903
	65,078	17,485
a Group Pool and Excess Loss reinsurers' share of outstanding claims		
Provision brought forward	83,857	64,490
Provision carried forward	(145,648)	(83,857)
	(61,791)	(19,367)
b The Trust's share of outstanding claims		
Provision brought forward	539,111	552,707
Provision carried forward	(551,514)	(539,111)
	(12,403)	13,596
c		
a+b+c Change in net provision for claims	(9,116)	11,714

The estimates for known outstanding claims are based on the best estimates and judgement of the Managers of the final cost of individual cases based on current information. The individual estimates are reviewed regularly and include this Association's share of other Associations' pool claims. Full provision is also made for claims incurred but not reported by the balance sheet date using detailed statistical analysis having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

6. Net operating expenses

	2009 US\$ 000s	2008 US\$ 000s
Acquisition costs		
Brokerage	21,412	16,199
Underwriting administration expenses	6,709	5,890
	<u>28,121</u>	<u>22,089</u>
Administrative expenses		
Other administration expenses	8,079	3,772
Directors' remuneration	361	392
Auditors' remuneration	178	254
	<u>8,618</u>	<u>4,418</u>
	<u>36,739</u>	<u>26,507</u>

Transactions with related parties

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Under the terms of its management contract SMM(B) receives as remuneration for its services, a fee which is based in part on premiums payable by Members in each accounting year together with reimbursement of its office and administration expenses and those of its worldwide Representatives. For the financial year to 20th February 2009 these fees and expenses amounted to US\$ 35.540 million (2008: US\$ 31.799 million) with US\$ 737,595 outstanding at the year end (2008: US\$ 231,282 prepaid). Since 21st February 2000 the Association has provided SMM(B) with an unsecured, indefinite long term loan amounting to US\$ 2,031,185. There were no other related parties transactions requiring disclosure under FRS 8.

7. Investment income

	2009 US\$ 000s	2008 US\$ 000s
Dividends and interest	2,475	2,897
Realised gains/(losses)		
Investments	(816)	1,248
Exchange	(3,069)	1,360
	<u>(3,855)</u>	<u>2,608</u>
	<u>(1,410)</u>	<u>5,505</u>

Notes on the Accounts

Continued

8. Unrealised (losses)/gains on investments

	2009 US\$ 000s	2008 US\$ 000s
Investments	(3,269)	(1,287)
Exchange	(22)	17
	(3,291)	(1,270)

9. Other income

	2009 US\$ 000s	2008 US\$ 000s
Profit commission earned from the Origin joint venture with AEGIS	(183)	(454)
Bail commission	26	–
Rights of light award	105	–
	(52)	(454)

10. Taxation

The estimated liability for the accounting years to 20th February 2009 is US\$ nil (2008: US\$ 11,557) and the overprovision for the prior years is US\$ nil (2008: US\$ 376) based upon negotiations with the United Kingdom Inland Revenue and assessed on the investment income of the Association for the year.

At the present time, no income, profit, capital or capital gains taxes are levied in Bermuda. Accordingly no provision for such taxes has been recorded by the Association. In the event that such taxes are levied, the Association has received an undertaking from the Bermuda government exempting it from all such taxes until 28th March 2016.

11. Land and buildings

The freehold property consists of office premises in London E1. It is occupied under licence, free of rent, by the London Representatives of SMM(B). The property was valued by CB Richard Ellis Limited at £4,830,000 (US\$ 6,909,871) reflecting the market value at 20th February 2009. This resulted in a revaluation loss of US\$ 4,046,651 since the last valuation at 20th February 2006. The original costs incurred when the property was purchased in 1987 amounted to US\$ 16,952,226.

12. Other financial investments

	2009 US\$ 000s	2008 US\$ 000s
Market value		
Bonds and loans	33,382	44,803
Equities	141	164
Money market instruments	15,348	5,036
Deposits with credit institutions	27,159	21,465
Cash accounts	2,776	4,060
	78,806	75,528
Cost		
Bonds and loans	37,319	45,472
Equities	485	485
Money market instruments	15,348	5,036
Deposits with credit institutions	27,159	21,465
Cash accounts	2,776	4,060
	83,087	76,518

Unquoted investments of US\$ 141,053 (2008: US\$ 163,890) are carried in the accounts at their original euro cost less a provision for a permanent diminution in value.

13. Debtors arising out of direct insurance operations

	2009 US\$ 000s	2008 US\$ 000s
Mutual premium due	16,925	14,591
Outstanding additional premium yet to be debited	83,029	–
	99,954	14,591
The outstanding additional premium relates to the following classes and policy years:		
Class 1		
2006/07	19,187	–
2007/08	23,717	–
2008/09	40,125	–
	83,029	–

Notes on the Accounts

Continued

14. Debtors arising out of reinsurance operations

	2009 US\$ 000s	2008 US\$ 000s
Group Clubs	1,233	383
The Trust	7,500	31,168
Other reinsurance debtors	1,794	1,794
	10,527	33,345

15. Other debtors

	2009 US\$ 000s	2008 US\$ 000s
Balances with agents	467	480
Other debtors	2,042	2,281
	2,509	2,761

16. Free reserves

	2009 US\$ 000s	2008 US\$ 000s
Statutory reserve	240	240
Accumulated fund brought forward	74,593	66,151
Surplus for year	683	8,442
	75,516	74,833

The balance carried forward, of US\$ 75,515,595, together with any additional premium to be ordered by the Board of Directors and recoveries under the reinsurance contracts, will be available to meet liabilities not yet passed or ascertained. The Members of the Association are liable for their rateable proportion of any deficiency arising from an excess of liabilities over premium. The Directors and Managers are of the opinion that the Association has adequate assets and contractual arrangements to meet known and anticipated liabilities.

17. Creditors arising out of reinsurance operations

	2009 US\$ 000s	2008 US\$ 000s
Group Clubs and Excess Loss	3,607	2,983
The Trust	86,238	–
SMUA	2,215	13,353
	92,060	16,336

The balance due to The Trust includes US\$ 79.555 million in respect of the net proceeds of additional premium yet to be debited.

18. Other creditors

	2009 US\$ 000s	2008 US\$ 000s
Unsettled investment transactions	53	10,269
Sundry creditors	7,478	3,717
	7,531	13,986

19. Wholly-owned subsidiary companies

The Steamship Mutual Underwriting Association (Reinsurance) Limited is a wholly-owned subsidiary company which in turn holds 100% of the share capital of Steamship Mutual Property Holdings Limited.

20. The Steamship Mutual Underwriting Association (Europe) Limited ("SSM Europe")

Under the terms of the constitution of SSM Europe the Association controls 75% of the votes, with the balance held by Members of SSM Europe. All Members of SSM Europe are automatically Members of the Association and beneficiaries of The Steamship Mutual Trust. SSM Europe is currently in voluntary liquidation which is expected to be finalised in 2009.

21. Hydra Insurance Company Limited ("Hydra")

Hydra is a reinsurance captive created by the Members of the Group. Each Member has its own cell which is legally separate from the liabilities of the other cells. Under the provisions of FRS 5 this cell has been classified as a quasi-subsiary and has been consolidated.

22. Security

During the course of the year to 20th February 1997, the Directors authorised the setting up of a trust to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US\$ 5.433 million had been allocated to the trust. For many years the Association has deposited funds with the Wachovia Bank, NA as trustee of the Trust Agreement dated 7th April 1966 between various members of the Group and the US Federal Maritime Commission in connection with the provision of evidence of financial responsibility under Sections 2 and 3 of US Public Law 89-777. As at the balance sheet date the funds deposited had a total value of US\$ 1.130 million.

Report of the Independent Auditors

To the Members of The Steamship Mutual Underwriting Association (Bermuda) Limited

We have audited the financial statements of The Steamship Mutual Underwriting Association (Bermuda) Limited for the year ended 20th February 2009, which comprise the consolidated income and expenditure account, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein. These financial statements have been prepared for the purpose of Member and policy holder information.

This report is made solely to the Company's Members in accordance with Section 90 of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditors' 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 Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through the United Kingdom Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and generally accepted United Kingdom accounting principles applicable to insurers.

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the relevant financial reporting framework and whether the financial statements have been properly prepared in accordance with the Bermuda Companies Act 1981. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through the United Kingdom Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and generally accepted United Kingdom accounting principles applicable to insurers of the state of the Company's affairs as at 20th February 2009 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the Bermuda Companies Act 1981; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Chartered Accountants and Registered Auditors
London

12th May 2009

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The Steamship Mutual Underwriting Association Limited

Managers

Steamship Insurance Management,
Aquatical House, 39 Bell Lane,
London E1 7LU
Telephone: 020 7247 5490 / 020 7895 8490
www.simsl.com

Notice of Meeting

Notice is hereby given that the One Hundredth Annual General Meeting of the Members of the Company will be held at the Fairmont Vier Jahreszeiten Hotel, Hamburg, Germany, on Tuesday, 28th July 2009 at 09:10 hours for the following purposes:

- 1 To receive and if thought fit, to adopt the balance sheet and accounts for the year ended 20th February 2009, they having been recommended for adoption by the Board.
- 2 To elect Members of the Board.

The Members of the Board retiring by rotation and in accordance with Articles 10.2 and 10.11 of the Association are Ms I. Grimaldi, Mr H. M. Juniel, Mr M. Soury and Mr M. L. Valmas. Being eligible, they offer themselves for re-election.

- 3 To authorise the Managers to fix the remuneration of the Auditors. A Resolution proposing the appointment of Auditors to the Company will be put to the Meeting.
- 4 To transact any other ordinary business of the Company.

By Order of the Board

S. A. Ward

Secretary

12th May 2009

N.B. A Member who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote in his place. The instrument appointing a proxy should be in the form prescribed in the Articles of Association and must be deposited with the Secretary at Aquatical House, 39 Bell Lane, London E1 7LU, United Kingdom, not less than 48 hours before the time specified for the holding of the Meeting. A copy of the form of proxy prescribed by the Articles of Association is enclosed.

Directors

Directors

M. Souri, (Chairman), National Iranian Tanker Co.
C. J. Ahrenkiel, Ahrenkiel Consulting Services
J. L. Brean, QC, Metcalf & Co. (retired 28th October 2008)
I. Grimaldi, Grimaldi Holdings SpA.
H. M. Juniel, Reederei F. Laeisz GmbH.
A. L. Marchisotto, Moran Holdings, Inc.
J. W. Murray, Hapag-Lloyd
M. L. Valmas

Secretary

S. A. Ward, Steamship Insurance Management

Managers

Steamship Insurance Management

Registered office

Aquatical House,
39 Bell Lane,
London E1 7LU

Telephone: 020 7247 5490 and 020 7895 8490

Website: www.simsl.com

Registered number

105461

Report of the Directors

The Directors have pleasure in presenting their Report and the Accounts of the Association for the year ended 20th February 2009.

Principal activities

The Association is a company limited by guarantee incorporated in the United Kingdom. The principal activities of the Association were the insurance and reinsurance of Protection and Indemnity risks (P&I), and of Freight, Demurrage and Defence (FD&D) risks on behalf of Members. The total owned entered tonnage as at 20th February 2009 stood at approximately 10.7 million gross tons.

The Association is a member of the International Group of P&I Clubs.

Directors

The Directors of the Association are as shown on page 3.

In accordance with Article 10.2 of the Articles of Association, one-third of the Directors retire from office at each Annual General Meeting. The Directors retiring by rotation are I. Grimaldi, H. M. Juniel and M. Sourì. Being eligible, they offer themselves for re-election. M. L. Valmas retires in accordance with Article 10.11. Being eligible, he also offers himself for re-election.

Free reserves

The balance on the technical account for general business showed a surplus of US\$ 2.90 million for the financial year. The overall surplus for the financial year of US\$ 3.11 million reflects the above technical surplus together with investment and other income of US\$ 276,000 and a tax charge of US\$ 60,845. Free reserves increased from US\$ 16.05 million to US\$ 19.16 million. The Association's exposure to liquidity or cash flow risk is minimal given that it holds all investments in cash and money market instruments. The Association does not engage in hedging or any other type of derivative activity.

Underwriting

During the year mutual premium was levied as follows:

- (i) for the year 2008/09 (Class 1 – P&I) 100% mutual premium; and
- (ii) for the year 2008/09 (Class 2 – FD&D) 100% mutual premium.

The 2005/06 year was closed in May 2008.

During the second half of 2008 the climate for investment worldwide deteriorated dramatically, with financial institutions facing the most serious threat to their capital resources in living memory, as the result of a simultaneous collapse in the equity and non-government bond markets. These changes affected the combined investment holdings of the Association's reinsurers, The Steamship Mutual Underwriting Association (Bermuda) Limited ("SSM Bermuda") and The Steamship Mutual Trust ("The Trust").

At their meeting in January 2009, the Directors were advised that, despite positive underwriting results, these substantial investment losses had eroded the combined free reserves to an unacceptable level and that SSM Bermuda would be levying additional premium, to which the Association was contractually bound to contribute.

Underwriting Continued

To ensure that the Association would be in a position to meet its obligations under its reinsurance arrangements with SSM Bermuda, the Directors decided that additional capital be raised, by levying additional Class 1 Protection and Indemnity premium for the open policy years, as follows:

- | | | | | | |
|-------|------|-------|--------------------|-------|---------------------------------------|
| (i) | 2006 | 12.5% | additional premium | 12.5% | to be debited on 20th May 2009; |
| (ii) | 2007 | 14% | additional premium | 7% | to be debited on 20th August 2009 and |
| | | | | 7% | to be debited on 20th May 2010; |
| (iii) | 2008 | 20% | additional premium | 10% | to be debited on 20th August 2009 and |
| | | | | 10% | to be debited on 20th August 2010. |

The additional premium is expected to total approximately US\$ 25 million. Gross premium written, including these amounts, totalled US\$ 119.04 million compared to US\$ 70.47 million last year and the combined ratio, a key financial performance indicator, fell from 80.5% to 78.5%.

The Directors have set the release call for both Class 1 (P&I) and Class 2 (FD&D) at 25% of mutual premium for all open years.

For the year under review, the Directors had ordered a general increase in Class 1 premium of 15%. At the 2009 renewal the Directors ordered a general increase of 17.5%.

Tonnage

The level of entered tonnage rose during the year from 8.4 million to approximately 10.7 million gross tons.

Pooling and Reinsurance

The Association's reinsurance programme for the 2008/09 policy year was arranged in conjunction with other member Clubs of the International Group of Protection and Indemnity Clubs ("The Group"). The policy provided an ultimate limit of US\$ 3,043 million in excess of US\$ 7 million, except in relation to oil pollution claims, which were subject to an overall limit of US\$ 1,000 million.

Pooling

For 2009/10, the individual Club retention, before Pooling with other members of the Group, will remain at US\$ 7 million each claim, and the upper limit of the Pool remains at US\$ 50 million each event.

Hydra Insurance Company Limited ("Hydra")

With effect from 20th February 2008, the liabilities of the Association under the Group Pooling Agreement for the top layer of the Pool (from US\$ 30 million to US\$ 50 million each event) and for the Group's retention of 25% of the first US\$ 500 million layer of the General Excess Loss contract will continue to be reinsured into Hydra. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

Excess Loss cover

The Group's Excess of Loss programme was renewed with the same structure as for the expiring year. Overall premium ratings increased but were consolidated with expiring rates for Hydra. The Group continues to retain a 25% coinsurance of the first layer of the contract, from US\$ 50 million to US\$ 500 million each event.

The limit of the supplementary Pooled cover for a restricted range of risks covered by the "Bio-Chem" exclusions in War Risk policies remains at US\$ 30 million any one event each vessel for the 2009/10 policy year.

US oil pollution

The Group continues to levy special surcharges for vessels carrying persistent oil as cargo to the USA. The rates of surcharge for such voyages will reduce by 10% in 2009/10.

Charterers' cover

The Association provides cover for P&I and other risks for charterers, reinsured outside the Pool. Limits up to US\$ 500 million are provided for P&I, and a variety of limits for other risks.

Report of the Directors

Continued

The Steamship Mutual Underwriting Association (Bermuda) Limited

("SSM Bermuda")

Under an agreement made on 20th February 2003, the Association entered into a reinsurance contract with SSM Bermuda under which SSM Bermuda indemnified the Association in respect of 95% of the first US\$ 30 million of its net underlying liabilities in respect of each policy year and 100% of any such liabilities which exceed US\$ 30 million in respect of each policy year. From 20th February 2006 the indemnity was reduced to 90% of the first US\$ 30 million of the Association's net underlying liabilities and 100% of any excess over US\$ 30 million. From 20th February 2009 the indemnity is in respect of 90% of the first US\$ 50 million of the Association's net underlying liabilities and 100% of any excess over US\$ 50 million. All Members of the Association are automatically Members of SSM Bermuda and thus beneficiaries of The Trust.

Policy year statements

The figures in Appendices I and II to this Report are prepared under the accounting policies and in the format used within the financial statements providing a summary and breakdown by both class of business and underwriting year. No allowance has been made for the allocation of any future investment income.

Rules

With the support of advice from the Association's lawyers, the Directors have approved Rule changes effective from 20th February 2009, to clarify the scope of existing cover and to reflect initiatives in the Group. Apart from several relatively minor textual amendments to improve clarity and consistency with the Pooling Agreement, the most significant changes are:

Class 1 – Protection and Indemnity

Rule Nos. 15 and 43

Where guarantees or other forms of security are provided to the Association in relation to release calls and uncovered matters respectively, the Managers may now, if they deem it necessary, require the Member to provide alternative acceptable counter security in the event, for example, that a guarantor's financial status deteriorates.

Rule No. 17

In line with the agreement amongst the Group Clubs, and consequent changes to the Pooling Agreement which have been introduced for the 2009 policy year, the application of the "pay first" rule may be suspended in certain circumstances in respect of the personal injury claims of crew members.

Rule Nos. 20 and 21

Amendments to Rule 20 (Nuclear Risks) and 21 (War Risks) recognise that the Association may provide certificates of financial responsibility in accordance with the 2001 Bunkers Convention, subject to the proviso that the Member may be required to indemnify the Association in respect of exclusions from cover of war and nuclear risks.

Rule No. 40

There is now a contractual right on the part of the Association to recover from a Member, or former Member, the legal costs of taking proceedings to recover a debt or to obtain security.

Class 2 – Freight, Demurrage and Defence

Rule No. 5 xiii

Cover for claims arising in connection with the building, conversion, alteration, mortgage, sale or purchase of a Member's ship is subject to the terms of such cover being specifically agreed by the Managers.

Rules Continued

Charterers' terms

In addition, for renewal or acceptance of charterers' entries from 20th February 2009, a new set of terms has been introduced by the Association. In developing these new terms, the Managers have attempted to ensure consistency with the principles of cover enshrined in the existing Class 1 P&I Rules of the Association. These terms have been specifically drafted for charterers' entries and consolidate in a separate cover the conditions upon which charterer members will be entered for Class 1 P&I liabilities and, if such cover is requested, DTH and time charterers' bunkers risks. The result is a set of dedicated terms which clearly set out the scope and extent of cover available to charterers. FD&D cover, when provided to charterers, will continue to be available upon the terms set out in the Association's Class 2 Rules.

Statement of Directors' responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association as at the end of the financial year and of the surplus or deficit of the Association for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Association's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Association's auditors are unaware; and
- the Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

H. M. Juniel

Director

Managers

Steamship Insurance Management

New York, USA
12th May 2009

Appendix I – Policy Year Statement – All Classes

Open Policy Years – All Classes	2006/07 US\$ 000s	2007/08 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
Gross premium	49,189	71,681	92,592	213,462
Less:				
SSM Bermuda reinsurance premium	(42,173)	(61,200)	(80,118)	(183,491)
Net premium	7,016	10,481	12,474	29,971
Gross claims paid				
Own claims paid	(22,789)	(9,766)	(5,011)	(37,566)
Claims administration expenses	(612)	(1,238)	(1,555)	(3,405)
	(23,401)	(11,004)	(6,566)	(40,971)
Less:				
Other reinsurance recoveries	20,508	8,790	4,511	33,809
Net claims paid	(2,893)	(2,214)	(2,055)	(7,162)
Claims outstanding including IBNRs	(20,504)	(24,839)	(46,588)	(91,931)
Less:				
SSM Bermuda reinsurance recoveries	19,779	22,798	44,066	86,643
Net provision for claims outstanding	(725)	(2,041)	(2,522)	(5,288)
Brokerage	(2,323)	(3,413)	(3,321)	(9,057)
Underwriting administration expenses	(493)	(738)	(928)	(2,159)
Other expenses	(930)	(247)	(876)	(2,053)
Balance on the technical account	(348)	1,828	2,772	4,252
Additional premium to be charged	4,456	7,340	14,233	26,029
Brokerage payable on additional premium	(148)	(300)	(451)	(899)
SSM Bermuda reinsurance premium	(4,308)	(7,040)	(13,782)	(25,130)
Net product of additional premium	–	–	–	–
Investment income (including realised and unrealised)	546	547	186	1,279
Other income	–	–	90	90
Taxation	(85)	(81)	(60)	(226)
Open policy years funds available	113	2,294	2,988	5,395

Appendix I – Policy Year Statement – All Classes

	Total US\$ 000s
Closed Policy Years – All Classes	
Available balance as at 20th February 2008	11,306
Add:	
Balance of 2005/06 year as at 20th February 2008	3,601
Movements during financial year:	
Net premium	(9)
Net claim recoveries	(417)
Expense reductions	(18)
Available balance as at 20th February 2009	14,463
Claims outstanding	(16,425)
Less:	
Group Pool recoveries	7
Other reinsurance recoveries	15,659
Net provision for claims outstanding	(759)
Closed policy years funds available	13,704
Summary	
Open and closed years funds available	19,099
Reinsurance balance	59
Total projected funds available	19,158

Appendix II – Policy Year Statement – P&I Class

Open Policy Years – P&I Class	2006/07 US\$ 000s	2007/08 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
Gross premium	45,566	63,690	83,499	192,755
Less:				
SSM Bermuda reinsurance premium	(39,028)	(54,274)	(72,237)	(165,539)
Net premium	6,538	9,416	11,262	27,216
Gross claims paid				
Own claims paid	(22,120)	(9,317)	(4,841)	(36,278)
Claims administration expenses	(553)	(1,044)	(1,340)	(2,937)
	(22,673)	(10,361)	(6,181)	(39,215)
Less:				
SSM Bermuda reinsurance recoveries	19,907	8,385	4,357	32,649
Net claims paid	(2,766)	(1,976)	(1,824)	(6,566)
Claims outstanding including IBNRs	(19,917)	(22,427)	(45,115)	(87,459)
Less:				
SSM Bermuda reinsurance recoveries	19,251	20,627	42,741	82,619
Net provision for claims outstanding	(666)	(1,800)	(2,374)	(4,840)
Brokerage	(2,181)	(3,185)	(3,053)	(8,419)
Underwriting administration expenses	(448)	(622)	(800)	(1,870)
Other expenses	(863)	(211)	(781)	(1,855)
Balance on the technical account	(386)	1,622	2,430	3,666
Additional premium to be charged	4,456	7,340	14,233	26,029
Brokerage payable on additional premium	(148)	(300)	(451)	(899)
SSM Bermuda reinsurance premium	(4,308)	(7,040)	(13,782)	(25,130)
Net product of additional premium	–	–	–	–
Investment income (including realised and unrealised)	513	490	168	1,171
Other income	–	–	90	90
Taxation	(80)	(73)	(55)	(208)
Open policy years funds available	47	2,039	2,633	4,719

Appendix II – Policy Year Statement – P&I Class

Closed Policy Years – P&I Class	Total US\$ 000
Available balance as at 20th February 2008	11,574
Add:	
Balance of 2005/06 year as at 20th February 2008	3,498
Movements during financial year:	
Net premium	(9)
Net claim recoveries	(408)
Expense reductions	(18)
Available balance as at 20th February 2009	14,637
Claims outstanding including IBNRs	(16,376)
Less:	
Group Pool recoveries	7
Other reinsurance recoveries	15,612
Net provision for claims outstanding	(757)
Closed policy years funds available	13,880

Summary	All Classes	FD&D	Others	P&I
Open and closed years funds available	19,099	222	278	18,599
Reinsurance balance	59	–	–	–
Total projected funds available	19,158	222	278	18,599

Income and Expenditure Account

for the year ended 20th February 2009

	Note	2009 US\$ 000s	2008 US\$ 000s
Technical Account			
Earned premium, net of reinsurance			
Gross premium	2	119,035	70,474
Outward reinsurance premium	3	(105,589)	(60,093)
a Earned premium, net of reinsurance		13,446	10,381
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	26,976	32,417
Reinsurers' share		(23,383)	(28,637)
b Net claims paid		3,593	3,780
Change in the provision for claims			
Gross amount		25,592	1,894
Reinsurers' share		(24,636)	(1,765)
c Change in the net provision for claims		956	129
b+c=d Claims incurred, net of reinsurance		4,549	3,909
e Net operating expenses	5	6,000	4,447
a-d-e Balance on the technical account for general business		2,897	2,025
Non-Technical Account			
Balance on the general business technical account		2,897	2,025
Investment income		186	547
Other income		90	–
f Surplus on ordinary activities before taxation		3,173	2,572
g Taxation	6	(61)	(82)
f-g=h Surplus for the financial year		3,112	2,490
i Free reserves brought forward		16,046	13,556
h+i Free reserves		19,158	16,046

The results for both years are in respect of continuing operations.

There are no recognised gains or losses in either year other than the transactions reported in the above income and expenditure account.

The accompanying notes to these accounts form an integral part of this income and expenditure account.

Balance Sheet

as at 20th February 2009

	Note	2009 US\$ 000s	2008 US\$ 000s
Assets			
Investments			
Other financial investments	7	17,506	6,248
Reinsurers' share of technical provisions			
Claims outstanding		102,309	77,673
Debtors			
Debtors arising out of direct insurance operations	8	31,792	3,122
Debtors arising out of reinsurance operations		2,338	13,353
Other debtors		99	209
Other assets			
Cash at bank and in hand		1,965	1,606
Prepayments and accrued income			
Deferred acquisition costs		95	39
Other prepayments and accrued income		–	–
Total assets		156,104	102,250
Liabilities			
Capital and reserves			
Free reserves	9	19,158	16,046
Technical provisions			
Provision for unearned premium		798	2,241
Claims outstanding		108,355	82,763
Provisions for other risks and charges			
Provision for taxation		61	84
Creditors			
Creditors arising out of direct insurance operations		1,444	716
Creditors arising out of reinsurance operations		25,130	–
Other creditors including taxation and social security		1,158	400
Total liabilities		156,104	102,250

The accompanying notes to these accounts form an integral part of this balance sheet.

These financial statements were approved by the Board of Directors on 12th May 2009.

H. M. Juniel

Director

C. J. Ahrenkiel

Director

Managers:

Steamship Insurance Management

Cash Flow Statement

for the year ended 20th February 2009

	2009 US\$ 000s	2008 US\$ 000s
Surplus on ordinary activities before tax		
a Operating surplus before taxation after interest	3,173	2,572
(Decrease)/increase in general insurance technical provisions	(487)	1,586
(Increase)/decrease in debtors	(17,601)	2,128
Increase/(decrease) in creditors	26,616	(4,236)
b	8,528	(522)
a+b=c Net cash inflow from operating activities	11,701	2,050
Cash flow statement		
Net cash inflow from operating activities	11,701	2,050
Taxation paid	(84)	(85)
	11,617	1,965
Cash flows were invested as follows:		
d Increase in cash holdings	359	484
Net portfolio investment		
e Purchase of money market instruments	11,258	1,481
d+e=f Net investment of cash flows	11,617	1,965
Movement in opening and closing portfolio investments net of financing		
d Net cash inflow for the period	359	484
e Portfolio investments	11,258	1,481
d+e=f Total movement in portfolio investments net of financing	11,617	1,965
Portfolio investments net of financing at 20th February 2008	7,854	5,889
Portfolio investments net of financing at 20th February 2009	19,471	7,854

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

The accounts have been prepared in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom per The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and applicable United Kingdom accounting standards. The Association has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 and amended in December 2006 by the Association of British Insurers ("ABI SORP").

After making enquiries, the Directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

(b) Premium written

Premium, less returns, comprise the total premium receivable for the whole period of cover provided by contracts incepting during the financial year. All premium is shown gross of commission payable to intermediaries.

(c) Unearned premium

The proportion of the premium written relating to periods of cover after the year end is carried forward as a provision for unearned premium.

(d) Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new business, are deferred to the extent that they are attributable to premium unearned at the balance sheet date.

(e) Claims and related expenses

Claims and related expenses are charged to the income and expenditure account when they have been settled. A provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date. A provision for claims incurred but not reported is established on a statistical basis having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

(f) Reinsurance premium and recoveries

Reinsurance premium and recoveries are brought into the income and expenditure account on an accruals basis.

(g) Investments

Quoted investments have been valued at their mid-market value as at the balance sheet date. Bond income is accounted for on an accruals basis. The unrealised gains and losses on the movement during the year in the market value of investments compared to their cost are included in the non-technical account.

(h) Allocation to policy years and classes

Mutual premium, fixed premium, additional premium, reinsurance premium payable, claims and reinsurance recoveries are allocated to the policy years and classes to which they relate. Administration expenses, investment income and exchange gains or losses are allocated to the current policy year in line with total calls and premium income.

Notes on the Accounts continued

1. Accounting policies Continued

(i) Foreign currencies

Monetary assets and liabilities are converted at the rate of exchange ruling at the balance sheet date. Income and expenditure items are translated at the rate of exchange ruling at the relevant month end. All exchange differences are included in the income and expenditure account.

The rates of exchange ruling on the balance sheet date and used for the purpose of preparing the accounts were as follows:

		2009	2008
Euro	€	0.788	0.678
UK sterling	£	0.699	0.513

2. Gross premium

	2009 US\$ 000s	2008 US\$ 000s
Mutual and fixed premium written	91,553	71,642
Deferred premium and releases	10	4,534
Additional premium	26,029	–
Movement in unearned premium	1,443	(1,457)
Movement in outstanding deferred mutual premium	–	(4,245)
	119,035	70,474
Gross premium by class of business		
Protection and Indemnity	109,552	62,879
Freight, Demurrage and Defence	2,471	1,764
Other	7,012	5,831
	119,035	70,474
Gross premium by destination		
United States of America	92,736	48,114
Italy	8,528	6,287
Germany	8,101	4,929
Brazil	5,049	3,263
Mexico	1,776	2,893
Spain	1,563	1,029
Netherlands	684	2,751
Other countries	598	1,208
	119,035	70,474

The Association's activities relate predominantly to one class of business: Protection and Indemnity.

3. Reinsurance contracts

The Association has the following reinsurance arrangement:

Under an agreement made on the 20th February 2003, SSM Bermuda agreed to indemnify the Association in respect of 95% of the first US\$ 30 million of the Association's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million in respect of all policy years through to 2005/06 and in respect of 90% of the first US\$ 30 million of the Association's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million for subsequent policy years.

4. Claims paid – gross amount

	2009 US\$ 000s	2008 US\$ 000s
Claims and related expenses	25,490	31,109
Claims administration expenses	1,486	1,308
	26,976	32,417

5. Net operating expenses

	2009 US\$ 000s	2008 US\$ 000s
Acquisition costs		
Brokerage	4,248	3,409
Underwriting administration expenses	886	780
	5,134	4,189
Administrative expenses		
Other administration expenses	875	365
Federal Excise Tax	(54)	(157)
Directors' remuneration	5	6
Auditors' remuneration – audit services	40	44
	866	258
	6,000	4,447

The Association had no employees in either financial year.

Transactions with related parties

Steamship Insurance Management ("SIM") provides management and administrative services to the Association. Under the terms of its management contract SIM receives, as remuneration for its services, a fee which is based in part on premiums payable by Members in each accounting year together with reimbursement of its office and administration expenses. For the financial year to 20th February 2009 these fees amounted to US\$ 3.096 million (2008: US\$ 2.294 million). US\$ 60,777 was prepaid at the year end (2008: US\$ 82,105 outstanding).

Notes on the Accounts

continued

6. Taxation

The charge represents the estimated liability for the accounting year to 20th February 2009 of US\$ 60,845 (2008: US\$ 84,218) based upon negotiations with the United Kingdom tax authorities, assessed on the investment income of the Association for the relevant years.

	2009 US\$ 000s	2008 US\$ 000s
Analysis of tax charge on ordinary activities		
United Kingdom corporation tax at 21% (2008: 20%) based on the surplus for the financial year	(61)	(84)
Adjustment in respect of prior years	–	2
	<u>(61)</u>	<u>(82)</u>

Factors affecting tax charge for the current period

The tax assessed for the financial year is lower than that resulting from applying the standard rate of corporation tax in the United Kingdom.

The differences are explained below.

Surplus on ordinary activities before tax	3,173	2,572
Tax at 21% (2008: 20%) thereon	(666)	(514)
Effect of expenses not deductible for tax purposes	605	430
Prior period adjustments	–	2
Current tax charge for period	<u>(61)</u>	<u>(82)</u>

7. Other financial investments

	2009 US\$ 000s	2008 US\$ 000s
Market value		
Money market instruments	17,506	6,248
	<u>17,506</u>	<u>6,248</u>
Cost		
Money market instruments	17,506	6,248
	<u>17,506</u>	<u>6,248</u>

All investments are listed.

8. Debtors arising out of direct insurance operations

	2009 US\$ 000s	2008 US\$ 000s
Mutual premium due	5,763	3,122
Outstanding additional premium	26,029	–
	31,792	3,122

The outstanding additional premium relates to the following classes and policy years:

Class 1

2006/07	4,456	–
2007/08	7,340	–
2008/09	14,233	–
	26,029	–

9. Free reserves

	2009 US\$ 000s	2008 US\$ 000s
Free reserves brought forward	16,046	13,556
Surplus for year	3,112	2,490
	19,158	16,046

The balance carried forward of US\$ 19,158,006 together with any further additional premium to be ordered by the Board of Directors and recoveries under the reinsurance contracts, will be available to meet liabilities not yet passed or ascertained. The Members of the Association are liable for their rateable proportion of any deficiency arising from an excess of liabilities over premium. The Directors and Managers are of the opinion that the Association has adequate assets and contractual arrangements to meet known and anticipated liabilities.

Report of the Independent Auditors

Independent Auditors' Report to the Members of The Steamship Mutual Underwriting Association Limited

We have audited the financial statements of The Steamship Mutual Underwriting Association Limited for the year ended 20th February 2009, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 9. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's Members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditors' 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 Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 20th February 2009 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Chartered Accountants and Registered Auditors
London

12th May 2009

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The Steamship Mutual Trust

Directors of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited

H. S. Frank, Carnival Corporation (Chairman)

S. von Appen, Sociedad Naviera Ultragas Ltda.

J. G. Conyers, First Bermuda Securities Ltd.

A. Exel, ISIS Ltd.

O. H. Fritzner

C. C. Tung, Orient Overseas (International) Ltd.

Secretary of the Corporate Trustee

A. R. Anderson, Conyers, Dill & Pearman

Manager of the Corporate Trustee

Hamilton Investment Management Limited

Registered office of the Corporate Trustee

Clarendon House,

2 Church Street,

Hamilton HM 11,

Bermuda

Administrative offices of the Corporate Trustee

Washington Mall 1,

P.O. Box HM 447,

Hamilton HM BX,

Bermuda

Telephone: (441) 295 4502

Telefax: (441) 292 8787

Report of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited has pleasure in presenting its Report and the Accounts of The Steamship Mutual Trust ("The Trust") for the year ended 20th February 2009.

Principal activities

The Trust's principal activity during the year was the reinsurance of Protection and Indemnity (P&I) and Freight, Demurrage and Defence (FD&D) risks. At the beginning of the accounting period, the Corporate Trustee extended its current year contract, entered into on behalf of The Trust, with The Steamship Mutual Underwriting Association (Reinsurance) Limited, to cover the period from 20th February 2008 to 20th February 2009 on existing terms and conditions. The total premium receivable by The Trust in respect of all its reinsurance contracts during the accounting period amounted to US\$ 283.10 million.

Accounts

The surplus of funds available to meet outstanding claims as at 20th February 2009 decreased by US\$ 1.92 million to US\$ 92.99 million before taking into account anticipated future investment income. No transfers to the capital reserve of the Trust were made during the year. The total assets of the Trust at the balance sheet date amounted to US\$ 675.39 million, a decrease of US\$ 27.41 million on the previous year.

Policy year statements

The figures in Appendices I and II to this Report are prepared under the accounting policies and in the format used within the financial statements, providing a summary and breakdown by both class of business and underwriting year. No allowance has been made for the allocation of any future investment income.

Investments

Investment results for virtually all investors were extremely disappointing in 2008 and early 2009. Equity markets across the world fell to multi-year lows, credit spreads widened to unprecedented levels, volatility spiked and liquidity in many markets was severely impacted. In short, virtually every part of the capital markets, with the exception of government guaranteed debt, suffered severe losses.

Equities had recovered some ground in April and May 2008, following the government-supported buyout of Bear Stearns and a series of interest rate cuts by the US Federal Reserve and the Bank of England, but the respite was brief. Equity and credit markets retreated in June and July as losses from mortgage-related debt widened, undermining investor confidence in all securitised fixed income assets and leading to fresh declines for major banks and several hedge funds. By September, disruptions in the securitised debt sectors had widened to the broader credit and interbank markets, with economies showing signs of strain and the fate of several European and US banks hanging in the balance. In this environment, the US Government's failure to prevent the bankruptcy of such a large institution as Lehman Brothers proved to be a turning point: the move triggered losses for money market, bond and equity investors and disrupted thousands of derivatives contracts in which Lehman was a counterparty.

Investments Continued

The entire banking system teetered on the brink of collapse in October, with insurance company American International Group facing substantial losses on its multi-billion dollar book of credit default swaps. Credit and money markets stopped functioning, while a near halt in global trade finance paralysed the export sectors of several countries. Equities tumbled from mid-September to mid-November, commodities slid and corporate bond yield spreads reached levels not seen since the Great Depression. Recognising the risk of a systemic financial collapse and a severe global economic recession, governments around the world intensified their efforts to ensure stability in October. The US, the UK, Ireland and Germany propped up several financial institutions through direct takeovers, government-brokered buyouts, recapitalisation through government guaranteed debt and purchases of banks' impaired assets. By the end of 2008, global banking had been changed irrevocably.

Central banks cut interest rates in quick succession, bringing rates close to zero in the US and Japan and to around 2% in Europe and the UK. With monetary flows severely hampered, several governments announced fiscal measures that included tax cuts and public spending increases. Proposals from China and the US were particularly ambitious; total stimulus amounted to 1%–2% of annual GDP in many other countries. By December, markets appeared to have stabilised somewhat, advancing for the first time in four months but equities recorded further heavy losses in the first two months of 2009. With indicators pointing to a deepening global economic slump and falling corporate earnings, monetary policy was loosened worldwide at an unprecedented rate. Having little room to lower interest rates further, some central banks turned to unconventional policy measures that included the purchase of securities in the open market. The amount of planned fiscal stimulus also increased substantially to an estimated US\$ 2.4 trillion, or 3% of global GDP.

The MSCI World Index ended the year down 42% in local currency terms. Emerging market equities suffered the largest stock market losses, with the MSCI Emerging Markets Investible Markets Index declining 54% in US dollar terms. Unlike previous bear markets, there was no place for investors to hide. Major equity markets lost anywhere from a third to two-thirds of their value; financials declined by more than 50%, while materials and industrials both lost more than 40%. Healthcare and utilities lost the least. Despite the credit market disruptions, the broader bond markets delivered positive total returns on the back of sharp rallies in government bonds. Investment grade corporate bonds lost 9% in dollar terms, though high yield bonds suffered steeper losses. Credit markets showed some signs of improvement in early 2009, though liquidity was still relatively poor as dealers remained unwilling to carry bonds. Government bonds were pressured by supply concerns in the US and Japan but rallied in several European countries.

Commodities, which rallied for the first half of the year, fell sharply in the second half as economies weakened. Crude oil futures retreated from a peak of US\$ 146 a barrel in July to under US\$ 41 a barrel by the end of the period. The sliding price of oil took inflation off the boil and provided some relief to households and businesses, but it was not enough to offset the damage from declining household wealth, diminished access to credit and weakened labour markets. By December, the US, Germany, Japan and the UK were all deemed to be in recession simultaneously for the first time since the 1980s. Economic growth in the emerging markets, which has outstripped growth rates in developed economies in recent years, also trended lower.

Report of the Corporate Trustee Continued

Investments Continued

The currencies of countries with large current account deficits or sizeable materials sectors tumbled. UK sterling was undermined by a rapidly weakening economy, losing more than a quarter of its value against the US dollar and nearly reaching parity with the euro. In contrast, the Japanese yen advanced by 12% versus the US dollar amid the sustained and often forced unwinding of leverage and carry trades. In early 2009 the US dollar regained its safe haven status, rising against most currencies worldwide.

Asset allocation and management

The Trust's overall investment loss of 16.3% was made up of a 50.1% loss on equities, 23.2% loss on hedge funds of funds and 11.4% loss on fixed income investments. The rolling three year average annual return has fallen sharply to a loss of 0.8% and compares with a benchmark return of 1.9%.

This year has been extraordinary and has challenged the design and operation of most investment mandates along with the risk based capital models which underpin investment strategy, regulatory and rating agency assessments. Steamship has experienced losses that are outside the normal bands of quantitative models. The markets experienced losses that are almost unprecedented in modern investment history, correlations between asset classes increased to well above their historical values and in addition to the losses in the capital markets themselves, active managers in many cases have underperformed their benchmarks by substantial margins.

The combined capital position of the Club and The Trust was monitored closely as the crisis unfolded and the impact on regulator and rating agency assessments was updated regularly. As part of this monitoring the Corporate Trustee reviewed the timing of asset reallocation, having assessed the risk of further falls in markets, the unrealised losses in the portfolio and market illiquidity. In view of the further losses in markets in November and the outlook for a deeper and longer global recession, the Trustees decided to take action to protect the portfolio from the very real chance of further losses which could reduce the combined Club and Trust capital well below an acceptable level. This action centred on reducing the highest risk investments in equities and hedge funds of funds. Accordingly both US and non-US equity portfolios were sold in early January and the proceeds placed in cash funds. Redemptions were instructed on two hedge funds of funds, to realise 50% of the investment in this category in the first half of 2009. Notice of termination was given to the US fixed income manager and the transition to a new manager was completed before year end.

The Corporate Trustee has maintained a very defensive position since the beginning of 2009, pending a broader redesign of its investment strategy which will include a consultation on revised risk and return objectives with the Board of the Club, which is the ultimate reinsured and whose members are The Trust's beneficiaries.

Against the background of profoundly disappointing results in 2008, the Corporate Trustee is firmly resolved to adopt a more conservative strategy and to review opportunities to enhance its governance arrangements and risk management approach.

Claims

Net claims and related expenses paid decreased by 19.2% during the financial year to US\$ 151.27 million.

The Corporate Trustee is satisfied that the reassured is taking appropriate steps to ensure that a prudent underwriting policy is maintained.

Statement of Trustee's responsibilities

The Corporate Trustee has prepared financial statements for each financial year in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and United Kingdom accounting principles applicable to insurers. In preparing those financial statements the Corporate Trustee is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that The Trust will continue in business.

The Corporate Trustee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of The Trust. It is responsible for the system of internal control, for safeguarding the assets of The Trust and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

H. S. Frank

Chairman

**The Steamship Mutual Underwriting Association
Trustees (Bermuda) Limited**

New York, USA

12th May 2009

Appendix I – Policy Year Statement – All Classes

Open Policy Years – All Classes	2006/07 US\$ 000s	2007/08 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
Gross premiums	150,935	170,594	199,867	521,396
Less:				
Reinsurance premiums	(16,460)	(22,522)	(24,243)	(63,225)
Net premiums	134,475	148,072	175,624	458,171
Gross claims paid				
Own claims and related expenses	(132,015)	(94,159)	(27,392)	(253,566)
Less:				
Reinsurance recoveries	286	622	–	908
Net claims paid	(131,729)	(93,537)	(27,392)	(252,658)
Claims outstanding including IBNRs	(91,824)	(84,749)	(167,524)	(344,097)
Less:				
Other reinsurance recoveries	40,984	10,163	10,410	61,557
Net provision for claims outstanding	(50,840)	(74,586)	(157,114)	(282,540)
Administration expenses	(3,062)	(2,300)	(1,972)	(7,334)
Balance on the technical account	(51,156)	(22,351)	(10,854)	(84,361)
Additional premium	18,287	22,717	38,552	79,556
Allocated investment income	35,036	2,149	4,277	41,462
Open policy years funds available	2,167	2,515	31,975	36,657

Appendix I – Policy Year Statement – All Classes

	Total US\$ 000s
Closed Policy Years – All Classes	
Available balance as at 20th February 2008	165,769
Add:	
Balance of 2005/06 year as at 20th February 2008	51,464
Movements during financial year:	
Other net premium	1,017
Net claims paid	(44,697)
Movement in allocated Trust investment income	(2,771)
Available balance as at 20th February 2009	170,782
Claims outstanding including IBNRs	(207,417)
Less:	
Other reinsurance recoveries	40,678
Net provision for claims outstanding	(166,739)
Closed policy years funds available	4,043
Summary	
Open and closed years funds available	40,700
Investment income available for allocation	52,004
Reinsurance balance	285
Total projected funds available	92,989

Appendix II – Policy Year Statement – P&I Class

Open Policy Years – P&I Class	2006/07 US\$ 000s	2007/08 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
Gross premium	132,195	146,496	172,647	451,338
Less:				
Reinsurance premium	(11,983)	(17,435)	(18,438)	(47,856)
Net premium	120,212	129,061	154,209	403,482
Gross claims paid				
Own claims and related expenses	(121,263)	(86,338)	(23,813)	(231,414)
Less:				
Reinsurance recoveries	206	622	–	828
Net claims paid	(121,057)	(85,716)	(23,813)	(230,586)
Claims outstanding including IBNRs	(87,835)	(73,808)	(145,638)	(307,281)
Less:				
Other reinsurance recoveries	40,895	8,557	10,408	59,860
Net provision for claims outstanding	(46,940)	(65,251)	(135,230)	(247,421)
Administration expenses	(2,767)	(2,039)	(1,743)	(6,549)
Balance on the technical account	(50,552)	(23,945)	(6,577)	(81,074)
Additional premium	18,287	22,717	38,552	79,556
Allocated investment income	32,265	1,228	–	33,493
Open policy years funds available	–	–	31,975	31,975

Appendix II – Policy Year Statement – P&I Class

Closed Policy Years – P&I Class	Total US\$ 000s			
Available balance as at 20th February 2008	159,358			
Add:				
Balance of 2005/06 year as at 20th February 2008	45,185			
Movements during financial year:				
Other net premium	661			
Net claims paid	(42,686)			
Movement in allocated Trust investment income	(2,525)			
Available balance as at 20th February 2009	159,993			
Claims outstanding including IBNRs	(197,841)			
Less:				
Other reinsurance recoveries	37,848			
Net provision for claims outstanding	(159,993)			
Closed policy years funds available	–			
Summary	Total	FD&D	Others	P&I
Open and closed years funds available	40,700	4,682	4,043	31,975
Investment income available for allocation	52,004			
Reinsurance balance	285	–	–	–
Total projected funds available	92,989	4,682	4,043	31,975

Income and Expenditure Account

for the year ended 20th February 2009

	Note	2009 US\$ 000s	2008 US\$ 000s
Technical Account			
Earned premium, net of reinsurance			
Gross premium written	3	283,107	163,298
Outward reinsurance premium		(23,757)	(22,451)
a		<u>259,350</u>	<u>140,847</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	153,868	193,540
Reinsurers' share		(2,602)	(6,216)
b Net claims paid		<u>151,266</u>	<u>187,324</u>
Change in the provision for claims			
Gross amount		12,403	(13,596)
Reinsurers' share		3,024	(29,986)
c Change in the net provision for claims	5	<u>15,427</u>	<u>(43,582)</u>
b+c=d Claims incurred, net of reinsurance		<u>166,693</u>	<u>143,742</u>
e Net operating expenses	6	<u>81</u>	<u>97</u>
a-d-e Balance on the technical account for general business		<u>92,576</u>	<u>(2,992)</u>
Non-Technical Account			
Balance on the technical account for general business		92,576	(2,992)
Investment income	7	(34,143)	36,677
Unrealised losses on investments	8	(58,467)	(14,764)
Investment management expenses		(1,891)	(2,205)
(Deficit)/surplus for the financial year		<u>(1,925)</u>	<u>16,716</u>

The results for both years are in respect of continuing operations.

There are no recognised gains or losses in either year other than the transactions reported in the above income and expenditure account.

The accompanying notes to these accounts form an integral part of this income and expenditure account.

Balance Sheet

as at 20th February 2009

	Note	2009 US\$ 000s	2008 US\$ 000s
Assets			
Investments			
Other financial investments	9	478,412	588,481
Reinsurers' share of technical provisions			
Claims outstanding	5	102,236	105,260
Debtors			
Debtors arising out of reinsurance operations	11	92,130	6,050
Prepayments and accrued income			
Accrued interest		2,609	3,005
Total assets		675,387	702,796
Liabilities			
Capital and reserves			
Free reserves	12	92,989	94,914
Technical provisions			
Claims outstanding	5	551,514	539,111
Creditors			
Creditors arising out of reinsurance operations	13	19,271	41,275
Other creditors	14	11,613	27,496
Total liabilities		675,387	702,796

The accompanying notes to these accounts form an integral part of this balance sheet.

These financial statements were approved by the Corporate Trustee on 12th May 2009.

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited

Cash Flow Statement

for the year ended 20th February 2009

	2009 US\$ 000s	2008 US\$ 000s
(Deficit)/surplus on ordinary activities before tax		
a Operating (deficit)/surplus before taxation after interest	(1,925)	16,716
Increase in general insurance technical provisions	15,427	(43,582)
Unrealised losses on investment	58,467	14,764
(Increase)/decrease in debtors	(85,683)	24,905
(Decrease)/increase in creditors	(37,888)	6,702
b	(49,677)	2,789
a+b=c Net cash (outflow)/inflow from operating activities	(51,602)	19,505
Cash flow statement		
Net cash (outflow)/inflow from operating activities	(51,602)	19,505
Cash flows were invested as follows:		
d Movement in cash holdings	–	–
Net portfolio investment		
Net sale of bonds and loans	(64,725)	(69,095)
Net sale of equities	(117,400)	(17,124)
Net purchase of alternative investments	203	61,006
Increase in money market instruments	130,320	44,718
e	(51,602)	19,505
d+e=f Net investment of cash flows	(51,602)	19,505
Movement in opening and closing portfolio investments net of financing		
d Net cash inflow for the period	–	–
e Portfolio investments	(51,602)	19,505
d+e=f Movement arising from cash flows	(51,602)	19,505
g Changes in market values and exchange rate effects	(58,467)	(14,764)
f+g Total movement in portfolio investments net of financing	(110,069)	4,741
Portfolio investments net of financing at 20th February 2008	588,481	583,740
Portfolio investments net of financing at 20th February 2009	478,412	588,481

Notes on the Accounts

1. Constitution

The Trust was created by a settlement under Bermudian law. The Corporate Trustee is The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited, a company incorporated under the laws of Bermuda and registered as an insurer under the Bermuda Insurance Act 1978, so enabling The Trust to undertake reinsurance business.

2. Accounting policies

(a) Accounting convention

The accounts have been prepared in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and generally accepted United Kingdom accounting principles applicable to insurers. The Trust has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 and amended in December 2006 by the Association of British Insurers ("ABI SORP").

After making enquiries, the Trustees have a reasonable expectation that The Trust has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

(b) Premium written

Premium comprises the total premium receivable for the whole period of cover provided by contracts incepting during the financial year. All business is ceded from The Steamship Mutual Underwriting Association (Reinsurance) Limited, a company incorporated in Bermuda.

(c) Claims and related expenses

Full provision is made on a claim by claim basis for the estimated cost of claims notified but not settled by the balance sheet date. A provision for claims incurred but not reported is established on a statistical basis having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

(d) Reinsurance premium and recoveries

Reinsurance premium and recoveries are brought into the income and expenditure account on an accruals basis.

(e) Foreign currencies

Assets and liabilities including investments and bank balances have been converted at the rate of exchange ruling at the balance sheet date. Income and expenditure items including foreign exchange transactions are converted at the rate of exchange ruling at the date of the transaction. All exchange differences are included in the income and expenditure account.

(f) Other financial investments

Investments and cash balances have been valued at their mid-market value as at the balance sheet date. Bond income is accounted for on an accruals basis. Equity income is accounted for on an ex-dividend basis. Forward exchange contracts are valued at the exchange rate prevailing at the year end. The unrealised gains and losses on the movement during the year in the market value of investments compared to their cost are included within the non-technical account.

Notes on the Accounts

Continued

3. Gross premium written

	2009 US\$ 000s	2008 US\$ 000s
Premium receivable under reinsurance contracts	283,107	182,603
Movement in outstanding deferred premium	–	(19,305)
	283,107	163,298

Under contracts dated 11th March 1983, as amended, the Corporate Trustee, on behalf of The Trust, accepted reinsurance business in respect of all the Protection and Indemnity risks and Freight, Demurrage and Defence risks of The Steamship Mutual Underwriting Association (Reinsurance) Limited for the period up to 20th February 1983 and subsequently further contracts for each of the policy years ended, respectively, 20th February 1984 through to 20th February 2009.

4. Claims paid – gross amount

	2009 US\$ 000s	2008 US\$ 000s
Claims paid	153,858	193,530
Claims handling charge	10	10
	153,868	193,540

5. Change in the net provision for claims

	2009 US\$ 000s	2008 US\$ 000s
Gross outstanding claims		
Provision brought forward	(539,111)	(552,707)
Provision carried forward	551,514	539,111
	12,403	(13,596)
Reinsurers' share		
Provision brought forward	105,260	75,274
Provision carried forward	(102,236)	(105,260)
	3,024	(29,986)
Change in the net provision for claims	15,427	(43,582)

A positive net run-off deviation of US\$ 19.0 million was experienced during the year (2008: US\$ 38.8 million).

6. Net operating expenses

	2009 US\$ 000s	2008 US\$ 000s
Administrative expenses		
Non-investment management expenses payable to Corporate Trustee	33	45
Auditors' remuneration	48	52
	81	97

7. Investment income

	2009 US\$ 000s	2008 US\$ 000s
Dividends and interest	13,540	14,296
Realised gains/(losses)		
Investments	(50,577)	12,455
Exchange	2,894	9,926
	(47,683)	22,381
	(34,143)	36,677

8. Unrealised gains/(losses) on investments

	2009 US\$ 000s	2008 US\$ 000s
Investments	(35,839)	(21,171)
Exchange	(22,628)	6,407
	(58,467)	(14,764)

9. Other financial investments

	2009 US\$ 000s	2008 US\$ 000s
Market value		
Bonds and loans	200,041	294,060
Equities	2,067	128,412
Alternative investments	71,906	90,839
Money market instruments	186,921	60,931
Cash accounts	18,243	14,088
Other	(766)	151
	478,412	588,481
Cost		
Bonds and loans	218,246	282,971
Equities	1,913	119,313
Alternative investments	92,669	92,466
Money market instruments	186,921	60,889
Cash accounts	18,363	14,075
	518,112	569,714

Notes on the Accounts

Continued

10. Rates of exchange

The rates of exchange ruling at the accounting dates were as follows:

	2009	2008
UK sterling	£ 0.699	0.513
Euro	€ 0.788	0.678
Japanese yen	¥ 94.085	107.535

11. Debtors arising out of reinsurance operations

	2009 US\$ 000s	2008 US\$ 000s
The Steamship Mutual Underwriting Association (Reinsurance) Limited	86,238	–
Other reinsurance debtors	5,892	6,050
	92,130	6,050

12. Free reserves

	2009 US\$ 000s	2008 US\$ 000s
Capital reserve	33,827	33,827
Accumulated fund brought forward	61,087	44,371
(Deficit)/surplus for year	(1,925)	16,716
	92,989	94,914

13. Creditors arising out of reinsurance operations

	2009 US\$ 000s	2008 US\$ 000s
The Steamship Mutual Underwriting Association (Reinsurance) Limited	7,500	31,168
Other reinsurance creditors	11,771	10,107
	19,271	41,275

14. Other creditors

	2009 US\$ 000s	2008 US\$ 000s
Unsettled investment transactions	11,172	26,398
Other creditors	441	1,098
	11,613	27,496

15. Designated reserves

During the course of the year The Trust provided collateral to secure the provision of a letter of credit on behalf of The Steamship Mutual Underwriting Association (Bermuda) Limited under the terms of the International Group Pool designated reserves arrangements. At the balance sheet date the value of the collateral provided was US\$ 19.7 million.

16. Taxation

At the present time, no income, profit, capital or capital gains taxes are levied in Bermuda. Accordingly no provision for such taxes has been recorded by The Trust. In the event that such taxes are levied The Trust has received an undertaking from the Bermuda government exempting it from all such taxes until 28th March 2016.

17. Transactions with related parties

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited is the Corporate Trustee of The Trust. It receives a fee for investment management costs and related expenses. For the financial year to 20th February 2009 this fee amounted to US\$ 2.121 million (2008: US\$ 2.440 million) of which US\$ 0.393 million (2008: US\$ 1.047 million) was outstanding at the balance sheet date.

Report of the Independent Auditors

To the Corporate Trustee of The Steamship Mutual Trust

We have audited the financial statements of The Steamship Mutual Trust for the year ended 20th February 2009, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein. These financial statements have been prepared for the purpose of Member and policy holder information.

This report is made solely to the Corporate Trustee in accordance with Section 90 of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the Corporate Trustee those matters we are required to state to them in an auditors' 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 Trust and the Corporate Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and Auditors

The Corporate Trustee is responsible for the preparation of the financial statements in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through the United Kingdom Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and generally accepted United Kingdom accounting principles applicable to insurers.

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the relevant financial reporting framework and whether the financial statements have been properly prepared in accordance with the Bermuda Companies Act 1981. We also report to you whether in our opinion the information given in the Report of the Corporate Trustee is consistent with the financial statements. In addition, we report to you if, in our opinion, The Trust has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Corporate Trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to The Trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through the United Kingdom Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and generally accepted United Kingdom accounting principles applicable to insurers of the state of The Trust's affairs as at 20th February 2009 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Bermuda Companies Act 1981.

Deloitte LLP

Chartered Accountants and Registered Auditors
London

12th May 2009

Design and production:
Radley Yeldar
www.ry.com

The document is printed on Era Silk, which is produced from 50% genuine waste pulp, the balance being ECF pulp from well-managed/certified forests. The paper is also FSC certified and manufactured at an ISO 14001 accredited mill.



