



# STEAMSHIP MUTUAL

Annual Report and Accounts 2011



Life at sea...

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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: (1441) 295 4502

Telefax: (1441) 292 8787

## **Managers' representatives**

Steamship Insurance Management Services Limited

Aquatical House, 39 Bell Lane, London E1 7LU

Telephone: 020 7247 5490/020 7895 8490

[www.simsl.com](http://www.simsl.com)

Steamship Mutual Management (Hong Kong) Limited

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## **Representative office in Brazil**

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# Notice of Meeting

Notice is hereby given that the Thirty Seventh Annual General Meeting of the Members of the Association will be held at the Grand Hotel, Stockholm, Sweden, on Tuesday, 26th July 2011 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 2011.
- 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, Mr S-M. Edey, Ms D. M. Ho, Mr C. J. Madinabeitia, Mr B. B. A. McAllister, Mr A. Pohan, Capt J-F. Wei and Mr A. Zacchello. Being eligible all Directors, with the exception of Capt. J-F. Wei, offer themselves for re-election.

- 6 To appoint Auditors and to authorise the Directors to agree their remuneration.
- 7 Confirmation of acts.
- 8 To transact any other ordinary business of the Company.

By Order of the Board

**S. Davis**  
Secretary

10th May 2011

N.B. A Member who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend, speak and vote in his place. The instrument appointing a proxy may be in the form enclosed 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.

# Directors

## Directors

H. L. F. Schoeller, Columbia Shipmanagement Ltd.  
(Chairman – appointed 27th July 2010)  
A. Abraha, Ethiopian Shipping Lines  
K. H. Ahn, Korea Line Corp. (appointed 25th January 2011)  
C. J. Ahrenkiel, Ahrenkiel Consulting Services  
M. W. Bayley, Royal Caribbean International  
S-M. Edey, Sloman Neptun Schiffahrts AG.  
O. H. Fritzner  
I. Grimaldi, Grimaldi Holdings SpA.  
S. Hajara, The Shipping Corporation of India Ltd.  
D. M. Ho, Magsaysay Maritime Corp.  
H. M. Juniel, Reederei F. Laeisz GmbH.  
C. S. Kim, Korea Line Corp. (retired 31st December 2010)  
J. R. Lean  
J. M. Macdonald, Conyers, Dill & Pearman  
C. J. Madinabeitia, Tradewind Tankers SA  
A. L. Marchisotto, Moran Holdings, Inc.  
B. B. A. McAllister, McAllister Towing  
S. A. Meenai, Pakistan National Shipping Corp.  
(appointed 10th May 2011)  
S. Mehta, Essar Global  
J. W. Murray, Hapag-Lloyd  
C. K. Ong, U-Ming Marine Transport Corp.  
R. Otoni Andrade, Log-In Logistica Intermodal SA  
P. S. Panagopulos, Magna Marine Inc.  
(retired 26th October 2010)

A. Pohan, New York Waterway  
K. Sheehan, Norwegian Cruise Line (appointed  
10th May 2011)  
B. K. Sheth, The Great Eastern Shipping Co. Ltd.  
R. Siddiqi, Pakistan National Shipping Corp.  
(appointed 26th October 2010/retired 10th May 2011)  
M. Soury, National Iranian Tanker Co.  
(resigned 20th February 2011)  
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, Seearland Shipping Management BV.

## Secretary

S. Davis, Conyers, Dill & Pearman

## Managers

Steamship Mutual Management (Bermuda) Ltd.

## Registered office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## Administrative office

Washington Mall 1  
P.O. Box HM 447  
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Bermuda  
Telephone: (1441) 295 4502  
Telefax: (1441) 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 2011.

## 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 2011 stood at approximately 91.9 million GT.

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 the Act of Incorporation, as amended on 18th April 1984, and the Bye-laws, the under mentioned Directors of the Association hold office until the Annual General Meeting to be held in Stockholm, on 26th July 2011, when they retire:

Mr A. Abraha, Mr C. J. Ahrenkiel, Mr S-M. Edey, Ms D. M. Ho, Mr C. J. Madinabeitia, Mr B. B. A. McAllister, Mr A. Pohan, Capt J-F. Wei, Mr A. Zacchello.

Being eligible all Directors, with the exception of Capt. J-F. Wei, 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 C. J. Ahrenkiel, Mr M. W. Bayley, Mr O. H. Fritzner, Mr H. M. Juniel, Mr C. J. Madinabeitia, Mr S. Mehta, Mr H. L. F. Schoeller and Mr M. Verde.

In discharging its responsibilities the Committee receives regular financial and management reports from the Managers including a quarterly report from the Compliance Manager and the internal auditor. 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 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:

- reviewing the terms of reference of the Committee following an independent review of governance and risk management conducted by Deloitte;
- in conjunction with the Managers, defining an objective set of criteria with which to evaluate the risk register and selecting 12 key risks for particular attention by the Committee;
- receiving training in preparation for the introduction of Solvency II;
- reviewing Solvency II capital requirements following completion of the Quantitative Impact Study 5 (QIS5);
- appointing an external firm to provide internal audit services and agreeing a three year plan of work focussed on key risks and projects;
- reviewing the implementation of actions arising from the FSA Risk Mitigation Programme; and
- monitoring changes in the wider regulatory and compliance environment including licensing and taxation issues.

## Free reserves

The balance on the Technical Account showed a surplus of US\$ 11.05 million for the financial year.

The overall surplus for the financial year of US\$ 12.14 million reflects the above technical surplus together with gains on investments and other activities.

Free reserves increased from US\$ 87.41 million to US\$ 99.55 million.

## Underwriting

During the year mutual and additional premium was levied as follows:

- for the year 2010/11 (Class 1 – P&I) 100% mutual premium;
- for the year 2010/11 (Class 2 – FD&D) 100% mutual premium;
- for the year 2007/08 (Class 1 – P&I) 7% additional premium; and
- for the year 2008/09 (Class 1 – P&I) 10% additional premium.

The 2007/08 year was closed in May 2010.

Gross premium written totalled US\$ 295.11 million compared to US\$ 293.59 million last year.

The Directors have set the release call for both Class 1 (P&I) and Class 2 (FD&D) at 20% of mutual premium for the 2010/11 policy year; 15% of mutual premium for the 2009/10 policy year and 5% of mutual premium for the 2008/09 policy year.

## Free reserves

As at 20th February 2011, the combined free reserves of the Association and The Steamship Mutual Trust stood at US\$ 285.35 million. Discounted at a rate of 2.5% over ten years to take account of “run-off”, the combined free reserve figure is US\$ 330.8 million compared with US\$ 272.5 million discounted at 2.5% last year. For the year under review, the Directors had ordered a general increase in Class 1 premiums of 5%.

At the 2011 renewal the general increase was set at 0%.

## Tonnage

The level of owned entered tonnage grew by 6.2 million GT during the year. The 2011 renewal saw both a number of new entries and cancellations, resulting in a net decrease in owned entered tonnage of 1.0 million GT. However taking the year on year increase into account for both owned and chartered entries, the overall total entered tonnage rose to 91.9 million GT.

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 2011.

## Pooling and reinsurance

The Association’s reinsurance programme for the 2010/11 policy year was arranged in conjunction with other members of the International Group of Protection and Indemnity Clubs (“The Group”). The policy provided an ultimate limit of US\$ 3,042 million in excess of US\$ 8 million, except in relation to oil pollution claims, which were subject to an overall limit of US\$ 1,000 million.

## Pooling

For 2011/12, the individual Club retention, before Pooling with other members of the International Group, will remain at US\$ 8 million, but the upper limit of the Pool has been raised to US\$ 60 million each event.

# Report of the Directors

## continued

### Hydra Insurance Company Limited (“Hydra”)

With effect from 20th February 2011, 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, except for the change in the entry point to US\$ 60 million each event. Average premium ratings reduced, and 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\$ 60 million to US\$ 560 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 2011/12 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 12.5% in 2011/12.

### 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 2010/11 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, reduced by 23.8% to US\$ 206.37 million in respect of all policy years, as compared to US\$ 270.97 million during the previous financial year, 2009/10. After recoveries from the Group Pool and Excess of Loss contract, claims paid for all years during the financial year amounted to US\$ 180.52 million, a reduction of US\$ 35.45 million (16.4%) over the previous year. Claims paid by the Association, net of reinsurance recoveries but including claims handling costs, decreased from US\$ 26.93 million, in 2009/10, to US\$ 24.10 million during the year to 20th February 2011. This decrease reflects reduced retained claims within the Hydra cell.

Net claims paid during the financial year, on a combined basis including both Associations and Trust, amounted to US\$ 174.20 million, a decrease of 3.9% from the figure (US\$ 181.23 million) for the 2009/10 financial year. Net outstanding claims rose by US\$ 31.79 million to US\$ 534.56 million, an increase of 6.3% from the net outstanding claims as at 20th February 2010.

Gross claims arising in respect of the policy year 2010/11, including IBNR, are projected to be US\$ 237.91 million, a reduction of 5.3% over 2009/10 (US\$ 251.09 million). Claims net of reinsurance recoveries in respect of the policy year amounted to US\$ 206.28 million on a combined basis, an increase of 1.8% to the comparable figure for 2009/10 (US\$ 202.55 million).

During the policy year, through the Association's membership of the International Group, the Managers have continued to monitor developments concerning the operation or reform of international conventions governing the liabilities of shipowners in respect of pollution from hazardous and noxious substances and the carriage of goods by sea. Developments in the United States in relation to oil pollution following the Deepwater Horizon incident, and salvage and marine firefighting requirements under OPA have also been monitored, as have the development in China of new regulations on pollution prevention, and amendments to the Migrant Workers Act in the Philippines. The Managers have also been closely involved with issues arising from the sanctions in relation to Iran that have developed in the USA, the EU and the UK. In the Gulf of Aden, Indian Ocean and Arabian Sea, the persistent menace of Somali piracy continues to be a matter of great concern. In response to this the Managers have commissioned a loss prevention DVD on the subject of piracy which will be completed in the summer of 2011. Circulars to the Members have also been issued on topics relating to the presence of illegal narcotics on-board vessels in Venezuela, the advance cargo declaration regime in Europe, and the dangers associated with the carriage of nickel ore.

The 16th and 17th issues of "Sea Venture" were published in September 2010 and March 2011 respectively, and throughout the year the Managers also published various Risk Alerts, articles and news bulletins of topical interest on the Association's website. The 2010/11 edition of the Association's DVD guide to casualty investigation and claims handling, "A Team Effort" was distributed to Members and correspondents in May 2010 incorporating Spanish, Chinese, Korean and Russian versions.

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 2010 production work was undertaken on programmes dealing with safety training on offshore vessels and super yachts, MARPOL Annex VI, vapour emission control, mooring operations, US vessel general permit requirements, dangerous and difficult bulk cargoes, ballast water management, and vessel watch-keeping and resource management. 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 reduced by 3.9% to US\$ 100.62 million. The total gain on financial investments was US\$ 1.58 million.

#### **Rules**

With the support of advice from the Association's lawyers, the Directors have approved Rule changes effective from 20th February 2011 which include textual amendments to improve clarity and consistency with the Pooling Agreement. In addition however, more significant changes to the Rules were approved by the Directors to address concerns arising in relation to international trade sanctions and regulations impacting on the activities of the Club and its Members. These changes were introduced during the course of the policy year in an attempt to protect the Club itself from becoming a sanctions target as a result of actions taken by States or other International Organisations because of the activities of any of the Club's Members or the trades in which Members' vessels are employed.

# Report of the Directors

## continued

### **Changes to Class 1 – Protection and Indemnity – introduced with effect from 27th August 2010 in relation to sanctions**

#### **Rule No. 17 ii – Recovery**

A provision precluding recovery where reimbursement or payment exposes the Club to the risk of sanctions.

#### **Rule No. 24 i b – Imprudent Trading**

Employment by the Member of a vessel in a trade which may expose the Club to the risk of sanctions shall constitute imprudent trading and no liabilities consequent upon such trade shall be recoverable from the Club.

#### **Rule No. 32 iv – Reinsurance**

To guard against the situation where a claim on the Pool or the General Excess Loss (GXL) reinsurance contract may effectively be un-reinsured, this provision precludes reimbursement of a claim to the extent that there is a shortfall in recovery from another Club which is a party to the Pooling Agreement or from Excess Loss underwriters, by reason of sanctions.

This Rule change anticipated changes to the Pooling Agreement, excluding cover for sanctions risks, required by the reinsurers on the Group's GXL contract, without which the GXL contract could not have been renewed for the 2011/12 policy year. However Rule 32 iv was further amended with effect from 20th February 2011 to provide that if the Club has already indemnified the Member, the Member will be liable to repay the Club any shortfall in recovery under the Pooling Agreement or GXL contract.

#### **Rule No. 35 vi – Cessation of Membership**

An amendment to the effect that the provision of cover to, or in respect of a vessel may cease where the vessel is, or becomes a sanctions target.

#### **Rule No. 35 provisos c and d – Cessation of Membership**

The amendments to paragraphs c and d refine the application of the cessation and termination provisions in Rule 35 vi and vii, to provide, if the Directors so determine, for termination of only that part of the entry which may relate to, or the termination of the insurance of only those vessels which may be engaged in, any sanctionable activity.

#### **Rule No. 45 ii – Amendments to Rules**

A provision permitting further Rule changes within a policy year where the Directors decide these are necessary to comply with sanctions regulations as they may be amended from time to time.

### **Changes to Class 1 – Protection and Indemnity – introduced with effect from 20th February 2011**

#### **Rule No. 2 – Definitions**

The definition of Member has been expanded to include persons and entities to whom cover is provided but who do not enter ships in the Club, for example crew managers. The amendment will confirm, for the avoidance of doubt that such persons are subject to the provisions of the Rules in the same way as any Member.

#### **Rule No. 25 ii – Liability to Persons, Covered Risks g – Deviation Expenses**

The Rule has been amended to clarify that cover will apply only to expenses incurred solely as a result of the deviation and precluding recovery (on a pro rata basis or otherwise) of those expenses which the Member would have incurred in any event, irrespective of the deviation.

#### **Rule No. 25 xiii – Cargo Liabilities Proviso (v) – Ad Valorem Bills of Lading**

The Rule change conforms to changes made to the Pooling Agreement arising from two issues:

- to clarify that the exclusion in relation to liabilities arising under Ad Valorem bills applies where there is a general declaration of value as well as a declaration per unit, piece or package; and
- to provide that the restriction on recovery shall only apply where there is a causal connection between the insertion of a value in the bill and the carrier's consequent loss of right to limitation.

#### Proviso (vii) – Member’s Own Cargo

The Club’s Rules have been brought into line with those of the majority of the other International Group Clubs, which provide that a Member may recover in respect of its own cargo as if such cargo had belonged to a third party and the Member had concluded a contract of carriage with such third party on the standard terms recommended by the Club, namely those no less favourable than the Hague/Hague-Visby Rules as set out in Rule 25 xiii Proviso (i).

#### Rule No. 47 – Dispute Resolution and Adjudication

The Rule has been amended to ensure that third parties seeking to claim under the contract of insurance are subject to the relevant dispute resolution provisions binding upon a Member, aside from the adjudication procedure.

#### 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 2011.

#### 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 Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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.

#### H. L. F. Schoeller Chairman

Vienna, Austria  
10th May 2011

## Appendix I – Policy Year Statement

### All Classes

|                                                              | 2010/11<br>US\$ 000s | 2009/10<br>US\$ 000s | 2008/09<br>US\$ 000s | Total<br>US\$ 000s |
|--------------------------------------------------------------|----------------------|----------------------|----------------------|--------------------|
| <b>Open Policy Years – All Classes</b>                       |                      |                      |                      |                    |
| Gross premium                                                | 288,802              | 297,197              | 285,080              | 871,079            |
| Less:                                                        |                      |                      |                      |                    |
| Group Excess Loss reinsurance premium                        | (21,651)             | (20,372)             | (16,099)             | (58,122)           |
| Other reinsurance premium                                    | (1,553)              | (1,517)              | (1,221)              | (4,291)            |
| The Trust reinsurance premium                                | (204,007)            | (206,748)            | (201,172)            | (611,927)          |
| <b>Net premium</b>                                           | <b>61,591</b>        | <b>68,560</b>        | <b>66,588</b>        | <b>196,739</b>     |
| Gross claims paid                                            |                      |                      |                      |                    |
| Own claims paid                                              | (28,847)             | (61,342)             | (89,720)             | (179,909)          |
| Group Pool claims                                            | –                    | (4,940)              | (8,771)              | (13,711)           |
| Claims administration expenses                               | (17,548)             | (20,229)             | (21,262)             | (59,039)           |
|                                                              | (46,395)             | (86,511)             | (119,753)            | (252,659)          |
| Less:                                                        |                      |                      |                      |                    |
| Group Excess Loss reinsurance recoveries                     | –                    | –                    | –                    | –                  |
| Group Pool reinsurance recoveries                            | –                    | 537                  | –                    | 537                |
| The Trust reinsurance recoveries                             | 28,850               | 65,717               | 96,441               | 191,008            |
| <b>Net claims paid</b>                                       | <b>(17,545)</b>      | <b>(20,257)</b>      | <b>(23,312)</b>      | <b>(61,114)</b>    |
| Own claims outstanding including IBNR                        | (178,901)            | (102,159)            | (70,701)             | (351,761)          |
| Group Pool claims outstanding including IBNR                 | (30,158)             | (18,516)             | (3,081)              | (51,755)           |
| Future claims administration expenses                        | (8,280)              | (2,046)              | (986)                | (11,312)           |
| Less:                                                        |                      |                      |                      |                    |
| Group Excess Loss reinsurance recoveries                     | –                    | –                    | –                    | –                  |
| Group Pool reinsurance recoveries                            | 25,656               | 5,956                | 2,254                | 33,866             |
| The Trust recoveries                                         | 174,589              | 107,447              | 71,250               | 353,286            |
| <b>Net provision for claims outstanding</b>                  | <b>(17,094)</b>      | <b>(9,318)</b>       | <b>(1,264)</b>       | <b>(27,676)</b>    |
| Brokerage                                                    | (11,690)             | (17,081)             | (18,300)             | (47,071)           |
| Underwriting administration expenses                         | (5,284)              | (6,353)              | (6,690)              | (18,327)           |
| Other expenses                                               | (7,353)              | (6,526)              | (8,613)              | (22,492)           |
| <b>Balance on the technical account</b>                      | <b>2,625</b>         | <b>9,025</b>         | <b>8,409</b>         | <b>20,059</b>      |
| Additional premium                                           | –                    | –                    | 26,809               | 26,809             |
| Brokerage payable on additional premium                      | –                    | –                    | (1,519)              | (1,519)            |
| Additional premium receivable from SMUA                      | –                    | –                    | 13,763               | 13,763             |
| The Trust reinsurance premium                                | –                    | –                    | (39,006)             | (39,006)           |
| <b>Net product of additional premium</b>                     | <b>–</b>             | <b>–</b>             | <b>47</b>            | <b>47</b>          |
| Net investment income<br>(including realised and unrealised) | 859                  | 6,257                | (9,631)              | (2,515)            |
| Other income                                                 | 100                  | 12                   | 131                  | 243                |
| Taxation                                                     | –                    | (1)                  | –                    | (1)                |
| <b>Open policy years funds available</b>                     | <b>3,584</b>         | <b>15,293</b>        | <b>(1,044)</b>       | <b>17,833</b>      |

### Closed Policy Years – All Classes

|                                                   | Total<br>US\$ 000s |
|---------------------------------------------------|--------------------|
| Available balance as at 20th February 2010        | 83,999             |
| Add:                                              |                    |
| Balance of 2007/08 year as at 20th February 2010  | 8,956              |
| Movements during financial year:                  |                    |
| Net premium                                       | 601                |
| Net claims paid                                   | (5,508)            |
| Expenses                                          | (2,585)            |
| Other income                                      | 130                |
| <b>Available balance as at 20th February 2011</b> | <b>85,593</b>      |
|                                                   |                    |
| Own claims outstanding including IBNR             | (255,541)          |
| Group Pool claims outstanding including IBNR      | (32,651)           |
| Future claims administration expenses             | (2,495)            |
| Less:                                             |                    |
| Group Excess Loss reinsurance recoveries          | 41,715             |
| Group Pool reinsurance recoveries                 | 49,888             |
| The Trust recoveries                              | 194,167            |
| <b>Net provision for claims outstanding</b>       | <b>(4,917)</b>     |
| <b>Closed policy years funds available</b>        | <b>80,676</b>      |
|                                                   |                    |
| <b>Summary</b>                                    |                    |
| Open and closed years funds available             | 98,509             |
| Reinsurance balance and statutory reserve         | 1,037              |
| <b>Total projected funds available</b>            | <b>99,546</b>      |

## Appendix II – Policy Year Statement

### P&I Class

|                                                              | 2010/11<br>US\$ 000s | 2009/10<br>US\$ 000s | 2008/09<br>US\$ 000s | Total<br>US\$ 000s |
|--------------------------------------------------------------|----------------------|----------------------|----------------------|--------------------|
| <b>Open Policy Years – P&amp;I Class</b>                     |                      |                      |                      |                    |
| Gross premium                                                | 249,037              | 259,973              | 250,549              | 759,559            |
| Less:                                                        |                      |                      |                      |                    |
| Group Excess Loss reinsurance premium                        | (21,651)             | (20,372)             | (16,099)             | (58,122)           |
| Other reinsurance premium                                    | (1,553)              | (1,517)              | (1,221)              | (4,291)            |
| The Trust reinsurance premium                                | (172,490)            | (177,387)            | (173,391)            | (523,268)          |
| <b>Net premium</b>                                           | 53,343               | 60,697               | 59,838               | 173,878            |
| Gross claims paid                                            |                      |                      |                      |                    |
| Own claims paid                                              | (24,909)             | (48,226)             | (74,127)             | (147,262)          |
| Group Pool claims                                            | –                    | (4,940)              | (8,771)              | (13,711)           |
| Claims administration expenses                               | (13,611)             | (16,232)             | (17,227)             | (47,070)           |
|                                                              | (38,520)             | (69,398)             | (100,125)            | (208,043)          |
| Less:                                                        |                      |                      |                      |                    |
| Group Excess Loss reinsurance recoveries                     | –                    | –                    | –                    | –                  |
| Group Pool reinsurance recoveries                            | –                    | 537                  | –                    | 537                |
| The Trust reinsurance recoveries                             | 24,912               | 52,601               | 80,846               | 158,359            |
| <b>Net claims paid</b>                                       | (13,608)             | (16,260)             | (19,279)             | (49,147)           |
| Own claims outstanding including IBNR                        | (150,146)            | (92,017)             | (63,483)             | (305,646)          |
| Group Pool claims outstanding including IBNR                 | (30,158)             | (18,516)             | (3,081)              | (51,755)           |
| Future claims administration expenses                        | (6,999)              | (1,883)              | (876)                | (9,758)            |
| Less:                                                        |                      |                      |                      |                    |
| Group Excess Loss reinsurance recoveries                     | –                    | –                    | –                    | –                  |
| Group Pool reinsurance recoveries                            | 25,656               | 5,956                | 2,254                | 33,866             |
| The Trust recoveries                                         | 145,834              | 97,305               | 64,032               | 307,171            |
| <b>Net provision for claims outstanding</b>                  | (15,813)             | (9,155)              | (1,154)              | (26,122)           |
| Brokerage                                                    | (9,511)              | (14,931)             | (16,535)             | (40,977)           |
| Underwriting administration expenses                         | (4,293)              | (5,402)              | (5,738)              | (15,433)           |
| Other expenses                                               | (6,116)              | (5,644)              | (7,506)              | (19,266)           |
| <b>Balance on the technical account</b>                      | 4,002                | 9,305                | 9,626                | 22,933             |
| Additional premium                                           | –                    | –                    | 26,809               | 26,809             |
| Brokerage payable on additional premium                      | –                    | –                    | (1,519)              | (1,519)            |
| Additional premium receivable from SMUA                      | –                    | –                    | 13,763               | 13,763             |
| The Trust reinsurance premium                                | –                    | –                    | (39,006)             | (39,006)           |
| <b>Net product of additional premium</b>                     | –                    | –                    | 47                   | 47                 |
| Net Investment income<br>(including realised and unrealised) | 738                  | 5,467                | (8,412)              | (2,207)            |
| Other income                                                 | 100                  | 12                   | 131                  | 243                |
| Taxation                                                     | –                    | (1)                  | –                    | (1)                |
| <b>Open policy years funds available</b>                     | 4,840                | 14,783               | 1,392                | 21,015             |

### Closed Policy Years – P&I Class

|                                                   | Total<br>US\$ 000s |
|---------------------------------------------------|--------------------|
| Available balance as at 20th February 2010        | 76,345             |
| Add:                                              |                    |
| Balance of 2007/08 year as at 20th February 2010  | 9,408              |
| Movements during financial year:                  |                    |
| Net premium                                       | 629                |
| Net claims paid                                   | (5,508)            |
| Expenses                                          | (2,596)            |
| Other income                                      | 130                |
| <b>Available balance as at 20th February 2011</b> | <b>78,408</b>      |
| Own claims outstanding including IBNR             | (250,388)          |
| Group Pool claims outstanding including IBNR      | (32,651)           |
| Future claims administration expenses             | (2,448)            |
| Less:                                             |                    |
| Group Excess Loss reinsurance recoveries          | 41,715             |
| Group Pool reinsurance recoveries                 | 49,888             |
| The Trust recoveries                              | 189,014            |
| <b>Net provision for claims outstanding</b>       | <b>(4,870)</b>     |
| <b>Closed policy years funds available</b>        | <b>73,538</b>      |

### Summary

|                                           | All Classes   | FD&D    | Others | P&I    |
|-------------------------------------------|---------------|---------|--------|--------|
| Open and closed years funds available     | 98,510        | (1,321) | 5,278  | 94,553 |
| Reinsurance balance and statutory reserve | 1,036         |         |        |        |
| <b>Total projected funds available</b>    | <b>99,546</b> |         |        |        |

# Consolidated Income and Expenditure Account

for the year ended 20th February 2011

|                                                              | Note | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|--------------------------------------------------------------|------|-------------------|-------------------|
| <b>Technical Account</b>                                     |      |                   |                   |
| Earned premium, net of reinsurance                           |      |                   |                   |
| Gross premium                                                | 2    | 295,111           | 293,586           |
| Outward reinsurance premium                                  |      |                   |                   |
| Group Excess Loss                                            |      | (22,755)          | (21,118)          |
| The Trust                                                    | 3    | (209,013)         | (203,229)         |
| Earned premium, net of reinsurance                           |      | 63,343            | 69,239            |
| Claims incurred, net of reinsurance                          |      |                   |                   |
| Claims paid                                                  |      |                   |                   |
| Gross amount                                                 | 4    | 206,371           | 270,974           |
| Reinsurers' share:                                           |      |                   |                   |
| Group Pool and Excess Loss                                   | 4    | (25,849)          | (55,009)          |
| The Trust                                                    | 4    | (156,425)         | (189,038)         |
| Net claims paid                                              |      | 24,097            | 26,927            |
| Change in the provision for claims                           |      |                   |                   |
| Gross amount                                                 | 5    | (9,606)           | (7,860)           |
| Reinsurers' share:                                           |      |                   |                   |
| Group Pool and Excess Loss                                   | 5    | 32,696            | (12,517)          |
| The Trust                                                    | 5    | (21,308)          | 25,369            |
| Change in the net provision for claims                       |      | 1,782             | 4,992             |
| Claims incurred, net of reinsurance                          |      | 25,879            | 31,919            |
| Net operating expenses                                       | 6    | 26,415            | 31,859            |
| <b>Balance on the technical account for general business</b> |      | <b>11,049</b>     | <b>5,461</b>      |
| <b>Non-Technical Account</b>                                 |      |                   |                   |
| Balance on the general business technical account            |      | 11,049            | 5,461             |
| Investment income                                            | 7    | 3,690             | 975               |
| Unrealised (losses)/gains on investments                     | 8    | (2,112)           | 6,134             |
| Investment management expenses                               |      | (718)             | (849)             |
| Other income                                                 | 9    | 230               | 172               |
| Other charges                                                |      | –                 | –                 |
| Taxation                                                     |      | –                 | (2)               |
| <b>Surplus for the financial year</b>                        |      | <b>12,139</b>     | <b>11,891</b>     |

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 2011

|                                                      | Note | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|------------------------------------------------------|------|-------------------|-------------------|
| <b>Assets</b>                                        |      |                   |                   |
| Investments                                          |      |                   |                   |
| Land and buildings                                   | 11   | 6,910             | 6,910             |
| Other financial investments                          | 12   | 85,855            | 89,988            |
| Reinsurers' share of technical provisions            |      |                   |                   |
| Claims outstanding                                   | 5    | 672,922           | 684,310           |
| Debtors                                              |      |                   |                   |
| Debtors arising out of direct insurance operations   | 13   | 19,674            | 41,722            |
| Debtors arising out of reinsurance operations        | 14   | 21,374            | 25,020            |
| Other debtors                                        | 15   | 4,469             | 3,077             |
| Other assets                                         |      |                   |                   |
| Cash at bank and in hand                             |      | 7,855             | 7,836             |
| Prepayments and accrued income                       |      |                   |                   |
| Deferred acquisition costs                           |      | 94                | 106               |
| Other prepayments and accrued income                 |      | 73                | 700               |
| <b>Total assets</b>                                  |      | <b>819,226</b>    | <b>859,669</b>    |
| <b>Liabilities</b>                                   |      |                   |                   |
| Capital and reserves                                 |      |                   |                   |
| Free reserves                                        | 16   | 99,546            | 87,407            |
| Technical provisions                                 |      |                   |                   |
| Provision for unearned premium                       |      | 605               | 806               |
| Claims outstanding                                   | 5    | 705,515           | 715,121           |
| Provisions for other risks and charges               |      |                   |                   |
| Provision for taxation                               |      | –                 | –                 |
| Creditors                                            |      |                   |                   |
| Creditors arising out of direct insurance operations |      | 3,697             | 7,790             |
| Creditors arising out of reinsurance operations      | 17   | 5,744             | 40,077            |
| Other creditors                                      | 18   | 4,119             | 8,468             |
| <b>Total liabilities</b>                             |      | <b>819,226</b>    | <b>859,669</b>    |

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 10th May 2011.

**H. L. F. Schoeller**   **H. M. Juniel**   **Managers:**  
 Chairman                      Director                      Steamship Mutual Management (Bermuda) Limited

# Consolidated Cash Flow Statement

for the year ended 20th February 2011

|                                                                        | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|------------------------------------------------------------------------|-------------------|-------------------|
| <b>Surplus on ordinary activities before tax</b>                       |                   |                   |
| Operating surplus before taxation after interest                       | 12,139            | 11,893            |
| Increase in general insurance technical provisions                     | 1,581             | 4,503             |
| Unrealised losses/(gains) on investments                               | 2,112             | (6,134)           |
| Decrease in debtors                                                    | 24,942            | 43,064            |
| Increase in creditors                                                  | (42,775)          | (47,658)          |
|                                                                        | (14,140)          | (6,225)           |
| Net cash (outflow)/inflow from operating activities                    | (2,001)           | 5,668             |
| <b>Cash flow statement</b>                                             |                   |                   |
| Net cash (outflow)/inflow from operating activities                    | (2,001)           | 5,668             |
| Taxation paid                                                          | –                 | (2)               |
|                                                                        | (2,001)           | 5,666             |
| <b>Cash flows were invested as follows:</b>                            |                   |                   |
| Increase in cash holdings                                              | 19                | 619               |
| Net portfolio investment                                               |                   |                   |
| (Sale)/purchase of bonds and loans                                     | (39,297)          | 3,143             |
| Purchase of money market instruments                                   | 32,334            | 260               |
| Increase in cash on short term deposit                                 | 4,943             | 1,644             |
|                                                                        | (2,020)           | 5,047             |
| <b>Net investment of cash flows</b>                                    | (2,001)           | 5,666             |
| Movement in opening and closing portfolio investments net of financing |                   |                   |
| Net cash inflow for the period                                         | 19                | 619               |
| Portfolio investments                                                  | (2,020)           | 5,047             |
| Movement arising from cash flows                                       | (2,001)           | 5,666             |
| Changes in market values and exchange rate effects                     | (2,112)           | 6,134             |
| Total movement in portfolio investments net of financing               | (4,113)           | 11,800            |
| Portfolio investments net of financing at 20th February 2010           | 97,823            | 86,023            |
| <b>Portfolio investments net of financing at 20th February 2011</b>    | 93,710            | 97,823            |

# 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 Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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 and its share of Hydra Insurance Company Limited at 20th February 2011.

### (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.

### (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 bid 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.

# Notes on the Accounts

## continued

### 1. Accounting policies continued

#### (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:

|                  |     | 2011  | 2010  |
|------------------|-----|-------|-------|
| Canadian dollars | C\$ | 0.983 | 1.046 |
| Euro             | €   | 0.733 | 0.740 |
| UK sterling      | £   | 0.617 | 0.649 |

#### (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

|                                     | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|-------------------------------------|-------------------|-------------------|
| Mutual and fixed premiums written   | 293,722           | 290,732           |
| Deferred premium and releases       | 1,577             | 1,005             |
| Additional premium                  | (389)             | 1,360             |
| Movement in unearned premiums       | 201               | 489               |
|                                     | 295,111           | 293,586           |
| <b>Gross premium by destination</b> |                   |                   |
| Europe                              | 106,464           | 105,407           |
| North America                       | 65,703            | 68,745            |
| Far East                            | 61,194            | 57,743            |
| Africa and Middle East              | 22,987            | 26,343            |
| Latin America                       | 24,532            | 21,014            |
| Indian Sub-Continent                | 14,231            | 14,334            |
|                                     | 295,111           | 293,586           |

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

### 3. Reinsurance contracts

- (a) Under contracts dated 11th March 1983, the Association, through its subsidiary company, The Steamship Mutual Underwriting Association (Reinsurance) Limited (note 19), 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 2011.
- (b) 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; 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 all policy years from 2006/07 through to 2008/09 and in respect of 90% of the first US\$ 50 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$ 50 million for all subsequent policy years.

### 4. Claims paid – gross amount

|                                | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|--------------------------------|-------------------|-------------------|
| Claims and related expenses    | 175,119           | 223,894           |
| Group Pool claims              | 10,489            | 26,887            |
| Claims administration expenses | 20,763            | 20,193            |
|                                | 206,371           | 270,974           |
| Less reinsurers' share         |                   |                   |
| Group Pool                     | 13,089            | 24,791            |
| Group Excess Loss              | 12,760            | 30,218            |
| The Trust                      | 156,425           | 189,038           |
|                                | 182,274           | 244,047           |
| <b>Net claims paid</b>         | <b>24,097</b>     | <b>26,927</b>     |

## Notes on the Accounts continued

### 5. Change in net provision for claims

|                                                                           | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|---------------------------------------------------------------------------|-------------------|-------------------|
| <b>Gross outstanding claims</b>                                           |                   |                   |
| Provision brought forward                                                 | (715,121)         | (722,981)         |
| Provision carried forward                                                 | 705,515           | 715,121           |
|                                                                           | (9,606)           | (7,860)           |
| <b>Group Pool and Excess Loss reinsurers' share of outstanding claims</b> |                   |                   |
| Provision brought forward                                                 | 158,165           | 145,648           |
| Provision carried forward                                                 | (125,469)         | (158,165)         |
|                                                                           | 32,696            | (12,517)          |
| <b>The Trust's share of outstanding claims</b>                            |                   |                   |
| Provision brought forward                                                 | 526,145           | 551,514           |
| Provision carried forward                                                 | (547,453)         | (526,145)         |
|                                                                           | (21,308)          | 25,369            |
| <b>Change in net provision for claims</b>                                 | 1,782             | 4,992             |

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

|                                      | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|--------------------------------------|-------------------|-------------------|
| <b>Acquisition costs</b>             |                   |                   |
| Brokerage                            | 11,633            | 19,016            |
| Underwriting administration expenses | 6,250             | 6,329             |
|                                      | 17,883            | 25,345            |
| <b>Administrative expenses</b>       |                   |                   |
| Other administration expenses        | 7,919             | 5,920             |
| Directors' remuneration              | 426               | 406               |
| Auditors' remuneration               | 187               | 188               |
|                                      | 8,532             | 6,514             |
|                                      | 26,415            | 31,859            |

### 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 2011 these fees and expenses amounted to US\$ 32.8 million (2010: US\$ 30.9 million) with US\$ 1.9 million prepaid at the year end (2010: US\$ 0.5 million). 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

|                                | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|--------------------------------|-------------------|-------------------|
| Dividends and interest         | 611               | 1,636             |
| <b>Realised gains/(losses)</b> |                   |                   |
| Investments                    | 2,922             | (3,195)           |
| Exchange                       | 157               | 2,534             |
|                                | 3,079             | (661)             |
|                                | 3,690             | 975               |

## Notes on the Accounts continued

### 8. Unrealised (losses)/gains on investments

|             | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|-------------|-------------------|-------------------|
| Investments | (2,113)           | 6,124             |
| Exchange    | 1                 | 10                |
|             | (2,112)           | 6,134             |

### 9. Other income

|                                                                   | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|-------------------------------------------------------------------|-------------------|-------------------|
| Profit commission earned from the Origin joint venture with AEGIS | 131               | 160               |
| Bail commission                                                   | 99                | 12                |
|                                                                   | 230               | 172               |

### 10. Taxation

The estimated liability for the accounting year to 20th February 2011 is US\$ nil (2010: US\$ nil) based upon negotiations with the United Kingdom Inland Revenue and assessed on the investment income of the Association and SMUA 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

|                                   | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|-----------------------------------|-------------------|-------------------|
| <b>Market value</b>               |                   |                   |
| Bonds and loans                   | 1,240             | 42,651            |
| Equities                          | 152               | 150               |
| Money market instruments          | 76,625            | 38,916            |
| Deposits with credit institutions | 7,837             | 7,836             |
| Cash accounts                     | 1                 | 435               |
|                                   | 85,855            | 89,988            |
| <b>Cost</b>                       |                   |                   |
| Bonds and loans                   | 1,167             | 40,463            |
| Equities                          | 485               | 485               |
| Money market instruments          | 76,625            | 38,916            |
| Deposits with credit institutions | 7,837             | 7,836             |
| Cash accounts                     | 1                 | 435               |
|                                   | 86,115            | 88,135            |

Unquoted investments of US\$ 151,637 (2010: US\$ 150,203) 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

|                                                                                      | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|--------------------------------------------------------------------------------------|-------------------|-------------------|
| Mutual premium due                                                                   | 19,674            | 10,774            |
| Outstanding additional premium yet to be debited                                     | –                 | 30,948            |
|                                                                                      | 19,674            | 41,722            |
| The outstanding additional premium relates to the following classes and policy years |                   |                   |
| Class 1                                                                              |                   |                   |
| 2007/08                                                                              | –                 | 11,519            |
| 2008/09                                                                              | –                 | 19,429            |
|                                                                                      | –                 | 30,948            |

## Notes on the Accounts continued

### 14. Debtors arising out of reinsurance operations

|                           | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|---------------------------|-------------------|-------------------|
| Group Clubs               | 1,978             | 2,390             |
| The Trust                 | 17,602            | 14,082            |
| SMUA                      | –                 | 6,747             |
| Other reinsurance debtors | 1,794             | 1,801             |
|                           | 21,374            | 25,020            |

### 15. Other debtors

|                      | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|----------------------|-------------------|-------------------|
| Balances with agents | 539               | 549               |
| Other debtors        | 3,930             | 2,528             |
|                      | 4,469             | 3,077             |

### 16. Free reserves

|                                  | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|----------------------------------|-------------------|-------------------|
| Statutory reserve                | 240               | 240               |
| Accumulated fund brought forward | 87,167            | 75,276            |
| Surplus for year                 | 12,139            | 11,891            |
|                                  | 99,546            | 87,407            |

The balance carried forward, of US\$ 99,545,920 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

|                             | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|-----------------------------|-------------------|-------------------|
| Group Clubs and Excess Loss | 4,488             | 4,558             |
| The Trust                   | –                 | 35,519            |
| SMUA                        | 1,256             | –                 |
|                             | 5,744             | 40,077            |

## 18. Other creditors

|                                   | 2011<br>US\$ 000s | 2010<br>US\$ 000s |
|-----------------------------------|-------------------|-------------------|
| Unsettled investment transactions | –                 | 2,413             |
| Sundry creditors                  | 4,119             | 6,055             |
|                                   | 4,119             | 8,468             |

## 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. 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-subsidiary and has been consolidated.

## 21. 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\$ 7.8 million had been allocated to the trust. For many years the Association has deposited funds with the Wells Fargo 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\$ 1.2 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 2011, which comprise the consolidated income and expenditure account, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 21. 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 Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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 Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and generally accepted United Kingdom accounting principles applicable to insurers of the state of the Company's affairs as at 20th February 2011 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  
10th May 2011