



STEAMSHIP MUTUAL

Annual Report and Accounts 2011



Life at sea...

CONTENTS

02 Notice of Meeting	12 Income and Expenditure Account
03 Directors	13 Balance Sheet
04 Report of the Directors	14 Cash Flow Statement
08 Appendix I – Policy Year Statement All Classes	15 Notes on the Accounts
10 Appendix II – Policy Year Statement P&I Class	20 Report of the Independent Auditors

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 Hundred and Second Annual General Meeting of the Members of the Company will be held at the Grand Hotel, Stockholm, Sweden, on Tuesday, 26th July 2011 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 2011, 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 Article 11.2 of the Association are Ms I. Grimaldi and Capt. J. W. Murray. 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

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 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.

Directors

Directors

A. L. Marchisotto, Moran Holdings, Inc.

(Chairman appointed 25th January 2011)

C. J. Ahrenkiel, Ahrenkiel Consulting Services

I. Grimaldi, Grimaldi Holdings SpA.

H. M. Juniel, Reederei F. Laeisz GmbH.

J. W. Murray, Hapag-Lloyd

M. Souri, National Iranian Tanker Co.

(resigned 20th February 2011)

Secretary

S. A. Ward, Steamship Insurance Management

Managers

Steamship Insurance Management

Registered office

Aquatical House

39 Bell Lane

London E1 7LU

Telephone: 020 7247 5490/020 7895 8490

Website: www.simsl.com

Registered number

105461

Report of the Directors

Company registration number 105461

The Directors have pleasure in presenting their Report and the Accounts of the Association for the year ended 20th February 2011.

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 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 11.2 of the Articles of Association, one-third of the Directors retire from office at each Annual General Meeting. The Directors retiring by rotation are Ms. I. Grimaldi and Capt. J. W. Murray. Being eligible, they offer themselves for re-election.

Free reserves

The balance on the technical account for general business showed a deficit of US\$ 0.47 million for the financial year. The overall deficit for the financial year of US\$ 0.80 million reflects the above technical deficit together with investment losses of US\$ 0.33 million. Free reserves decreased from US\$ 18.75 million to US\$ 17.95 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 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\$ 135.98 million compared to US\$ 99.33 million last year, a 36.9% increase, and the combined ratio, a key financial performance indicator, fell slightly from 104.6% to 102.3%. The significant increase in premium reflects the entry of the European Inland Short Sea Facility which transferred from SSM Bermuda on 20th February 2010.

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.

For the year under review, the Directors had ordered a general increase in Class 1 premium of 5%. At the 2011 renewal the Directors ordered a general increase of 0%.

Tonnage

The level of entered tonnage rose during the year from 18.4 million to approximately 51.4 million gross tons, reflecting the entry of all European based business in the Association from 20th February 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.

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.

Pooling and reinsurance continued

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 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 Steamship Mutual 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 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.

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.

Report of the Directors

continued

Rules continued

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.

Principal risks and uncertainties

The Association is exposed to a variety of risks relating to liabilities arising from its insurance of Members' claims under its Rules and to the valuation of assets held to back those liabilities. As part of its ongoing business planning process, the Association uses an internal capital model to quantify the potential impact of these risks, to develop strategies to mitigate these risks, and to maintain an appropriate capital buffer to operate its business effectively and to meet regulatory requirements.

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 2006. 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 they ought to have taken as a Director in order to make themselves 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 418 of the Companies Act 2006.

A. L. Marchisotto
Chairman

Managers
Steamship Insurance Management

Vienna, Austria
10th May 2011

Appendix I – Policy Year Statement

All Classes

	2010/11 US\$ 000s	2009/10 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
Open Policy Years – All Classes				
Gross premium	136,921	98,122	92,854	327,897
Less:				
SSM Bermuda reinsurance premium	(115,853)	(86,629)	(80,282)	(282,764)
Net premium	21,068	11,493	12,572	45,133
Gross claims paid				
Own claims paid	(11,542)	(18,039)	(21,367)	(50,948)
Claims administration expenses	(2,380)	(1,752)	(1,572)	(5,704)
	(13,922)	(19,791)	(22,939)	(56,652)
Less:				
SSM Bermuda reinsurance recoveries	10,387	16,234	19,232	45,853
Net claims paid	(3,535)	(3,557)	(3,707)	(10,799)
Claims outstanding including IBNR	(75,161)	(37,439)	(24,167)	(136,767)
Less:				
SSM Bermuda reinsurance recoveries	71,304	34,228	23,275	128,807
Net provision for claims outstanding	(3,857)	(3,211)	(892)	(7,960)
Brokerage	(10,600)	(3,659)	(3,444)	(17,703)
Underwriting administration expenses	(1,499)	(1,045)	(938)	(3,482)
Other expenses	(1,820)	(571)	(880)	(3,271)
Balance on the technical account	(243)	(550)	2,711	1,918
Additional premium charged	–	–	14,219	14,219
Brokerage paid on additional premium	–	–	(456)	(456)
SSM Bermuda reinsurance premium	–	–	(13,763)	(13,763)
Net product of additional premium	–	–	–	–
Investment income (including realised and unrealised)	(327)	65	186	(76)
Other income	–	75	90	165
Taxation	–	(2)	(60)	(62)
Open policy years funds available	(570)	(412)	2,927	1,945

Closed Policy Years – All Classes

	Total US\$ 000s
Available balance as at 20th February 2010	14,500
Add:	
Balance of 2007/08 year as at 20th February 2010	3,693
Movements during financial year:	
Net premium	(30)
Net claims paid	(561)
Expenses	(130)
Available balance as at 20th February 2011	17,472
Claims outstanding	(30,698)
Less:	
Group Pool recoveries	–
SSM Bermuda reinsurance recoveries	29,211
Net provision for claims outstanding	(1,487)
Closed policy years funds available	15,985
Summary	
Open and closed years funds available	17,930
Reinsurance balance	24
Total projected funds available	17,954

Appendix II – Policy Year Statement

P&I Class

	2010/11 US\$ 000s	2009/10 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
Open Policy Years – P&I Class				
Gross premium	125,196	88,784	83,522	297,502
Less:				
SSM Bermuda reinsurance premium	(105,677)	(78,456)	(72,213)	(256,346)
Net premium	19,519	10,328	11,309	41,156
Gross claims paid				
Own claims paid	(11,288)	(14,143)	(20,096)	(45,527)
Claims administration expenses	(2,103)	(1,484)	(1,337)	(4,924)
	(13,391)	(15,627)	(21,433)	(50,451)
Less:				
SSM Bermuda reinsurance recoveries	10,159	12,729	18,087	40,975
Net claims paid	(3,232)	(2,898)	(3,346)	(9,476)
Claims outstanding including IBNR	(61,061)	(36,098)	(23,750)	(120,909)
Less:				
SSM Bermuda reinsurance recoveries	58,614	33,021	22,900	114,535
Net provision for claims outstanding	(2,447)	(3,077)	(850)	(6,374)
Brokerage	(10,092)	(3,351)	(3,154)	(16,597)
Underwriting administration expenses	(1,324)	(884)	(798)	(3,006)
Other expenses	(1,657)	(502)	(781)	(2,940)
Balance on the technical account	767	(384)	2,380	2,763
Additional premium charged	–	–	14,219	14,219
Brokerage paid on additional premium	–	–	(456)	(456)
SSM Bermuda reinsurance premium	–	–	(13,763)	(13,763)
Net product of additional premium	–	–	–	–
Investment income (including realised and unrealised)	(301)	59	168	(74)
Other income	–	75	90	165
Taxation	–	(2)	(55)	(57)
Open policy years funds available	466	(252)	2,583	2,797

Closed Policy Years – P&I Class

	Total US\$ 000
Available balance as at 20th February 2010	14,608
Add:	
Balance of 2007/08 year as at 20th February 2010	3,223
Movements during financial year:	
Net premium	(28)
Net claims paid	(535)
Expenses	(130)
Available balance as at 20th February 2011	17,138
Claims outstanding including IBNRs	(29,116)
Less:	
Group Pool recoveries	–
SSM Bermuda reinsurance recoveries	27,766
Net provision for claims outstanding	(1,350)
Closed policy years funds available	15,788

Summary

	All Classes	FD&D	Others	P&I
Open and closed years funds available	17,930	239	(894)	18,585
Reinsurance balance	24			
Total projected funds available	17,954			

Income and Expenditure Account

for the year ended 20th February 2011

	Note	2011 US\$ 000s	2010 US\$ 000s
Technical Account			
Earned premium, net of reinsurance			
Gross premium	2	135,982	99,325
Outward reinsurance premium	3	(115,039)	(87,480)
Earned premium, net of reinsurance		20,943	11,845
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	43,893	38,869
Reinsurers' share		(38,276)	(33,607)
Net claims paid		5,617	5,262
Change in the provision for claims			
Gross amount		25,735	33,371
Reinsurers' share		(23,855)	(31,851)
Change in the net provision for claims		1,880	1,520
Claims incurred, net of reinsurance		7,497	6,782
Net operating expenses	5	13,919	5,605
Balance on the technical account for general business		(473)	(542)
Non-Technical Account			
Balance on the general business technical account		(473)	(542)
Investment income		(327)	65
Other income		-	75
Deficit on ordinary activities before taxation		(800)	(402)
Taxation	6	-	2
Deficit for the financial year		(800)	(404)
Free reserves brought forward		18,754	19,158
Free reserves		17,954	18,754

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 2011

	Note	2011 US\$ 000s	2010 US\$ 000s
Assets			
Investments			
Other financial investments	7	17,805	20,304
Reinsurers' share of technical provisions			
Claims outstanding		158,015	134,160
Debtors			
Debtors arising out of direct insurance operations	8	5,745	21,667
Debtors arising out of reinsurance operations		1,312	26
Other debtors		24	34
Other assets			
Cash at bank and in hand		7,124	4,602
Prepayments and accrued income			
Deferred acquisition costs		141	73
Other prepayments and accrued income		–	–
Total assets		190,166	180,866
Liabilities			
Capital and reserves			
Free reserves	9	17,954	18,754
Technical provisions			
Provision for unearned premium		990	591
Claims outstanding		167,461	141,726
Provisions for other risks and charges			
Provision for taxation		–	2
Creditors			
Creditors arising out of direct insurance operations		1,628	620
Creditors arising out of reinsurance operations		–	16,902
Other creditors including taxation and social security		2,133	2,271
Total liabilities		190,166	180,866

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.

A. L. Marchisotto **H. M. Juniel** **Managers:**
 Chairman Director Steamship Insurance Management

Cash Flow Statement

for the year ended 20th February 2011

	2011 US\$ 000s	2010 US\$ 000s
Deficit on ordinary activities before tax		
Operating deficit before taxation after interest	(800)	(402)
Increase in general insurance technical provisions	2,279	1,313
Decrease in debtors	14,578	12,524
Decrease in creditors	(16,032)	(7,939)
	825	5,898
Net cash inflow from operating activities	25	5,496
Cash flow statement		
Net cash inflow from operating activities	25	5,496
Taxation paid	(2)	(61)
	23	5,435
Cash flows were invested as follows:		
Increase in cash holdings	2,522	2,637
Net portfolio investment		
(Sale)/purchase of money market instruments	(2,499)	2,798
Net investment of cash flows	23	5,435
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	2,522	2,637
Portfolio investments	(2,499)	2,798
Total movement in portfolio investments net of financing	23	5,435
Portfolio investments net of financing at 20th February 2010	24,906	19,471
Portfolio investments net of financing at 20th February 2011	24,929	24,906

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 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 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 bid-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

The functional currency is US dollars. 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:

	2011	2010
Euro	€ 0.733	0.740
UK sterling	£ 0.617	0.649

2. Gross premium

	2011 US\$ 000s	2010 US\$ 000s
Mutual and fixed premium written	136,314	99,061
Deferred premium and releases	33	145
Additional premium	34	(88)
Movement in unearned premium	(399)	207
	135,982	99,325
Gross premium by class of business		
Protection and Indemnity	124,172	90,267
Freight, Demurrage and Defence	3,761	2,737
Other	8,049	6,321
	135,982	99,325
Gross premium by destination		
United States of America	72,367	71,362
Germany	23,335	6,319
Netherlands	14,866	31
Brazil	10,960	9,346
Italy	7,497	7,257
Mexico	1,897	1,897
Indonesia	1,358	–
Vietnam	1,005	896
France	784	610
Argentina	681	574
Other countries	1,232	1,033
	135,982	99,325

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; 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 all policy years from 2006/07 through to 2008/09, and in respect of 90% of the first US\$ 50 million of the Association'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 US\$ 000s	2010 US\$ 000s
Claims and related expenses	41,517	37,058
Claims administration expenses	2,376	1,811
	43,893	38,869

5. Net operating expenses

	2011 US\$ 000s	2010 US\$ 000s
Acquisition costs		
Brokerage	10,603	3,942
Underwriting administration expenses	1,496	1,080
	12,099	5,022
Administrative expenses		
Other administration expenses	1,657	419
Regulatory fees	94	110
Directors' remuneration	4	4
Auditors' remuneration – audit services	65	50
	1,820	583
	13,919	5,605

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 2011, these fees amounted to US\$ 5.459 million (2010: US\$ 3.200 million). US\$ 1.373 million was outstanding at the year end (2010: US\$ 965,957 prepaid).

Notes on the Accounts continued

6. Taxation

The charge represents the estimated liability for the accounting year to 20th February 2011, of US\$ 294 (2010: US\$ 2,017) based upon negotiations with the United Kingdom tax authorities, assessed on the investment income of the Association for the relevant years.

Analysis of tax charge on ordinary activities

United Kingdom corporation tax at 21% (2010: 21%) based on the deficit for the financial year
Adjustment in respect of prior years

	2011 US\$ 000s	2010 US\$ 000s
	–	2
	–	–
	–	2

Factors affecting tax charge for the current period

The tax assessed for the financial year is higher than that resulting from applying the standard rate of corporation tax in the United Kingdom. The differences are explained below.

Deficit on ordinary activities before tax
Tax at 21% (2010: 21%) thereon
Effect of expenses not deductible for tax purposes
Prior period adjustments
Current tax charge for period

	(800)	(402)
	(168)	(84)
	168	86
	–	–
	–	2

7. Other financial investments

Market value

Money market instruments

	2011 US\$ 000s	2010 US\$ 000s
	17,805	20,304

Cost

Money market instruments

	17,805	20,304
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All investments are listed.

8. Debtors arising out of direct insurance operations

	2011 US\$ 000s	2010 US\$ 000s
Mutual premium due	5,745	11,150
Outstanding additional premium	–	10,517
	5,745	21,667
The outstanding additional premium relates to the following classes and policy years		
Class 1		
2007/08	–	3,549
2008/09	–	6,968
	–	10,517

9. Free reserves

	2011 US\$ 000s	2010 US\$ 000s
Free reserves brought forward	18,754	19,158
Deficit for year	(800)	(404)
	17,954	18,754

The balance carried forward of US\$ 17,954,124 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 2011, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the 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 explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 20th February 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Colin Rawlings (Senior Statutory Auditor)
FCA Deloitte LLP
Chartered Accountants and Statutory Auditors

London
10th May 2011