



STEAMSHIP MUTUAL

Annual Report and Accounts 2011



Life at sea...

CONTENTS

01 Directors of the Corporate Trustee	09 Balance Sheet
02 Report of the Corporate Trustee	10 Cash Flow Statement
04 Appendix I – Policy Year Statement All Classes	11 Notes on the Accounts
06 Appendix II – Policy Year Statement P&I Class	16 Report of the Independent Auditors
08 Income and Expenditure Account	

The Steamship Mutual Trust

Directors of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited

H. S. Frank, Carnival Corporation (Chairman)
S. von Appen, Sociedad Naviera Ultragas Ltda.
J. G. Conyers, First Bermuda Securities Ltd.
A. E. Exel, ISIS (Asia Pacific) Pty. Ltd.
O. H. Fritzner (resigned 26th July 2010)
H. L. F. Schoeller, Columbia Shipmanagement Ltd.
(appointed 27th July 2010)
C. C. Tung, Orient Overseas (International) Ltd.

Secretary of the Corporate Trustee

A. R. Anderson, Conyers, Dill & Pearman

Manager of the Corporate Trustee

Hamilton Investment Management Ltd.

Registered office of the Corporate Trustee

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Administrative offices of the Corporate Trustee

Washington Mall 1
P.O. Box HM 447
Hamilton HM BX
Bermuda
Telephone: (1441) 295 4502
Telefax: (1441) 292 8787

Report of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited has pleasure in presenting its Report and the Accounts of The Steamship Mutual Trust ("the Trust") for the year ended 20th February 2011.

Principal activities

The Trust's principal activity during the year was the reinsurance of Protection and Indemnity (P&I) and Freight, Demurrage and Defence (FD&D) risks. At the beginning of the accounting period, the Corporate Trustee extended its current year contract, entered into on behalf of the Trust, with The Steamship Mutual Underwriting Association (Reinsurance) Limited, to cover the period from 20th February 2010 to 20th February 2011 on existing terms and conditions. The total premium receivable by the Trust in respect of all its reinsurance contracts during the accounting period amounted to US\$ 209.01 million.

Accounts

The surplus of funds available to meet outstanding claims as at 20th February 2011 increased by US\$ 40.41 million to US\$ 185.81 million before taking into account anticipated future investment income. No transfers to the capital reserve of the Trust were made during the year. The total assets of the Trust at the balance sheet date amounted to US\$ 766.88 million, an increase of US\$ 63.91 million on the previous year.

Policy year statements

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

Investments

Investment markets

2010 was, in overall terms, a less volatile year for investment markets with global equities and global bonds achieving returns that were close to their long run averages. These results mask the abnormal investment environment that still persists two years after the financial crisis. Among the unusual results were US small cap stocks returning over 30% despite weak US economic growth, German equities outperforming Spanish equities by 25%, ten year US Treasury yields falling 1.4% by October and rebounding 1% by the Trust's year end, and commodities such as gold, copper and oil outperforming equities despite muted inflation.

During 2010 there were concerns that the US economic expansion would prove unsustainable, resulting in a double-dip recession, that Europe's debt problems could trigger a second financial crisis and that in trying to cool its economy through interest rate increases, China might impact global economic growth. In the second half of the year these issues receded as the US economy expanded more strongly than expected and investors became convinced that the other issues would have limited global effect.

For the financial year the MSCI World equity index recorded a total return of 22%, despite being down 8% for the period to early July, but two years of strong returns still left this index 15% below its high point reached in October 2007. Government bond yields were slightly lower over the period as a whole and corporate bonds enjoyed strong returns, especially in the high yield sector which offered yields of 5% over Treasuries. The US dollar depreciated against most currencies, by over 10% against the haven Swiss franc and commodity driven Australian dollar, and the prices of gold and oil continued their relentless march to new highs.

Central bank policy remains a key driver for investment markets in 2011. In developed markets the focus is on when stimulus might be withdrawn and in the emerging markets the challenges are still controlling inflation and capital inflows. The most likely scenario for 2011 seems to be continuing low growth in the developed world, a reduced risk of deflation with governments continuing to support their economies, but an increased risk of inflation from the end of the year.

Investment performance and asset allocation

The Trust's overall investment return of 4.4% was made up of a 4.5% return on fixed income investments, a 7.9% return on hedge funds of funds, a 35% return on its small allocation to equities and a minimal return on its short term cash investments.

This overall return was higher than expected, boosted by unrealised gains in the matching portfolio of government bonds. The matching portfolio hedges the economic value of claims liabilities such that risk, and regulatory capital, in that part of the portfolio is minimised. The investment of the remainder of the portfolio, which represents surplus funds held to meet capital objectives, is governed by the Board's risk budget and reviewed in the light of market conditions and overall performance of the business.

All active managers in this surplus portfolio outperformed their benchmarks and, by December the hedge fund of fund managers had recovered all the losses incurred in the year to February 2009.

A small allocation to a global equity index fund was built up during the year and a further US\$ 15 million invested with an existing diversified hedge fund of funds manager. At the year end the allocation to cash remained higher than target and consequently portfolio risk was well below the budget set in October 2009.

During the year the Corporate Trustee has reviewed the impact of specific scenarios on the current allocation, including a significant increase in inflation, and received presentations on opportunities for investing in emerging markets.

The Corporate Trustee has continued to consult regularly with the Board of the Bermuda Association, which is the ultimate reinsured and whose members are the beneficiaries of the Trust. During the year the Bermuda Board received a presentation which highlighted the key features of the investment strategy, explained how risk was being measured, the principles underlying the matching portfolio and how the Trustee was reviewing performance and risk. The Bermuda Board was consulted on the Investment Policy Statement which was approved in October 2010 and continues to receive reports on the utilisation of the agreed risk budget and other key investment indicators.

Claims

Net claims and related expenses paid decreased by 3.06% during the financial year to US\$ 144.48 million.

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

Statement of Trustee's responsibilities

The Corporate Trustee has prepared financial statements for each financial year in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through 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 Corporate Trustee is required to:

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

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

H. S. Frank
Chairman

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

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	204,009	206,746	201,170	611,925
Less:				
Reinsurance premium	(24,955)	(24,276)	(23,980)	(73,211)
Net premium	179,054	182,470	177,190	538,714
Gross claims paid				
Own claims and related expenses	(28,850)	(65,717)	(96,440)	(191,007)
Less:				
Reinsurance recoveries	49	2,870	106	3,025
Net claims paid	(28,801)	(62,847)	(96,334)	(187,982)
Claims outstanding including IBNR	(174,589)	(107,447)	(71,250)	(353,286)
Less:				
Other reinsurance recoveries	10,938	10,460	3,589	24,987
Net provision for claims outstanding	(163,651)	(96,987)	(67,661)	(328,299)
Administration expenses	(84)	(80)	(81)	(245)
Balance on the technical account	(13,482)	22,556	13,114	22,188
Additional premium	–	–	39,006	39,006
Allocated net investment income	15,731	(1,356)	1,264	15,639
Open policy years funds available	2,249	21,200	53,384	76,833

Closed Policy Years – All Classes

	Total US\$ 000s
Available balance as at 20th February 2010	161,349
Add:	
Balance of 2007/08 year as at 20th February 2010	51,698
Movements during financial year:	
Other net premium	173
Net claims paid	(54,764)
Movement in allocated Trust investment income	9,681
Available balance as at 20th February 2011	168,137
Claims outstanding including IBNRs	(194,167)
Less:	
Other reinsurance recoveries	29,948
Net provision for claims outstanding	(164,219)
Closed policy years funds available	3,918
Summary	
Open and closed years funds available	80,751
Investment income available for allocation	104,769
Reinsurance balance	287
Total projected funds available	185,807

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	172,490	177,387	173,391	523,268
Less:				
Reinsurance premium	(17,717)	(17,227)	(18,214)	(53,158)
Net premium	154,773	160,160	155,177	470,110
Gross claims paid				
Own claims and related expenses	(24,912)	(52,601)	(80,846)	(158,359)
Less:				
Reinsurance recoveries	–	–	106	106
Net claims paid	(24,912)	(52,601)	(80,740)	(158,253)
Claims outstanding including IBNRs	(145,834)	(97,305)	(64,032)	(307,171)
Less:				
Other reinsurance recoveries	8,054	8,744	3,201	19,999
Net provision for claims outstanding	(137,780)	(88,561)	(60,831)	(287,172)
Administration expenses	(73)	(71)	(71)	(215)
Balance on the technical account	(7,992)	18,927	13,535	24,470
Additional premium	–	–	39,006	39,006
Allocated net investment income	7,992	(1,492)	(1,672)	4,828
Open policy years funds available	–	17,435	50,869	68,304

Closed Policy Years – P&I Class

Available balance as at 20th February 2010

Add:

Balance of 2007/08 year as at 20th February 2010

Movements during financial year:

Other net premium

Net claims paid

Movement in allocated Trust investment income

Available balance as at 20th February 2011

Claims outstanding including IBNRs

Less:

Other reinsurance recoveries

Net provision for claims outstanding**Closed policy years funds available**

Total US\$ 000s
153,350
43,028
189
(47,991)
10,496
159,072
(187,707)
28,635
(159,072)
–

SummaryOpen and closed years funds available
Investment income available for allocation
Reinsurance balance**Total projected funds available**

All Classes	FD&D	Others	P&I
80,751	6,014	6,433	68,304
104,769			
287			
185,807			

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 written	3	209,013	203,230
Outward reinsurance premium		(25,788)	(22,818)
		183,225	180,412
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	156,425	189,038
Reinsurers' share		(11,942)	(40,001)
Net claims paid		144,483	149,037
Change in the provision for claims			
Gross amount		21,308	(25,369)
Reinsurers' share		6,815	40,486
Change in the net provision for claims	5	28,123	15,117
Claims incurred, net of reinsurance		172,606	164,154
Net operating expenses	6	84	80
Balance on the technical account for general business		10,535	16,178
Non-Technical Account			
Balance on the technical account for general business		10,535	16,178
Investment income	7	25,670	4,059
Unrealised gains on investments	8	5,962	33,861
Investment management expenses		(1,761)	(1,686)
Surplus for the financial year		40,406	52,412

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	9	698,617	591,342
Reinsurers' share of technical provisions			
Claims outstanding	5	54,935	61,750
Debtors			
Debtors arising out of reinsurance operations	11	8,910	45,969
Prepayments and accrued income			
Accrued interest		4,417	3,907
Total assets		766,879	702,968
Liabilities			
Capital and reserves			
Free reserves	12	185,807	145,401
Technical provisions			
Claims outstanding	5	547,453	526,145
Creditors			
Creditors arising out of reinsurance operations	13	29,434	24,236
Other creditors	14	4,185	7,186
Total liabilities		766,879	702,968

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

These financial statements were approved by the Corporate Trustee on 9th May 2011.

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

Cash Flow Statement

for the year ended 20th February 2011

	2011 US\$ 000s	2010 US\$ 000s
Surplus on ordinary activities before tax		
Operating surplus before taxation after interest	40,406	52,412
Increase in general insurance technical provisions	28,123	15,117
Unrealised gains on investment	(5,962)	(33,861)
Decrease in debtors	36,550	44,863
Increase in creditors	2,196	538
	60,907	26,657
Net cash inflow from operating activities	101,313	79,069
Cash flow statement		
Net cash inflow from operating activities	101,313	79,069
Cash flows were invested as follows:		
Movement in cash holdings	–	–
Net portfolio investment		
Net purchase of bonds and loans	21,055	281,726
Net purchase/(sale) of equities	13,147	(60)
Net purchase/(sale) of alternative investments	14,316	(41,414)
Increase/(decrease) in money market instruments	52,795	(161,183)
	101,313	79,069
Net investment of cash flows	101,313	79,069
Movement in opening and closing portfolio investments net of financing		
Net cash inflow for the period	–	–
Portfolio investments	101,313	79,069
Movement arising from cash flows	101,313	79,069
Changes in market values and exchange rate effects	5,962	33,861
Total movement in portfolio investments net of financing	107,275	112,930
Portfolio investments net of financing at 20th February 2010	591,342	478,412
Portfolio investments net of financing at 20th February 2011	698,617	591,342

Notes on the Accounts

1. Constitution

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

2. Accounting policies

(a) Accounting convention

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

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

(b) Premium written

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

(c) Claims and related expenses

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

(d) Reinsurance premium and recoveries

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

(e) Foreign currencies

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

(f) Other financial investments

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

Notes on the Accounts continued

3. Gross premium written

	2011 US\$ 000s	2010 US\$ 000s
Premium receivable under reinsurance contracts	209,013	203,230

Under contracts dated 11th March 1983, as amended, the Corporate Trustee, on behalf of the Trust, accepted reinsurance business in respect of all the Protection and Indemnity risks and Freight, Demurrage and Defence risks of The Steamship Mutual Underwriting Association (Reinsurance) Limited for the period up to 20th February 1983 and subsequently further contracts for each of the policy years ended, respectively, 20th February 1984 through to 20th February 2011.

4. Claims paid – gross amount

	2011 US\$ 000s	2010 US\$ 000s
Claims paid	156,422	189,035
Claims handling charge	3	3
	156,425	189,038

5. Change in the net provision for claims

	2011 US\$ 000s	2010 US\$ 000s
Gross outstanding claims		
Provision brought forward	(526,145)	(551,514)
Provision carried forward	547,453	526,145
	21,308	(25,369)
Reinsurers' share		
Provision brought forward	61,750	102,236
Provision carried forward	(54,935)	(61,750)
	6,815	40,486
Change in the net provision for claims	28,123	15,117

A positive net run-off deviation of US\$ 18.3 million was experienced during the year (2010: US\$ 23.4 million).

The estimates for known outstanding claims are based on the best estimates and judgement of the Managers of The Steamship Mutual Underwriting Association (Reinsurance) Limited of the final cost of individual cases based on current information. 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 US\$ 000s	2010 US\$ 000s
Administrative expenses		
Non-investment management expenses payable to Corporate Trustee	32	30
Auditors' remuneration	52	50
	84	80

7. Investment income

	2011 US\$ 000s	2010 US\$ 000s
Dividends and interest	15,219	10,657
Realised gains/(losses)		
Investments	12,162	(7,609)
Exchange	(1,711)	1,011
	10,451	(6,598)
	25,670	4,059

8. Unrealised gains on investments

	2011 US\$ 000s	2010 US\$ 000s
Investments	1,587	28,268
Exchange	4,375	5,593
	5,962	33,861

Notes on the Accounts continued

9. Other financial investments

	2011 US\$ 000s	2010 US\$ 000s
Market value		
Equities	18,993	943
Alternative investments	63,984	46,176
Bonds and loans	519,155	500,059
Money market instruments	86,085	32,833
Cash accounts	10,809	11,245
Other	(409)	86
	698,617	591,342
Cost		
Equities	15,000	1,853
Alternative investments	65,571	51,255
Bonds and loans	521,028	499,973
Money market instruments	86,085	32,832
Cash accounts	10,811	11,268
	698,495	597,181

10. Rates of exchange

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

	2011	2010
UK sterling	£ 0.617	0.649
Euro	€ 0.733	0.740

11. Debtors arising out of reinsurance operations

	2011 US\$ 000s	2010 US\$ 000s
The Steamship Mutual Underwriting Association (Reinsurance) Limited	–	35,519
Other reinsurance debtors	8,910	10,450
	8,910	45,969

12. Free reserves

	2011 US\$ 000s	2010 US\$ 000s
Capital reserve	33,827	33,827
Accumulated fund brought forward	111,574	59,162
Surplus for year	40,406	52,412
	185,807	145,401

13. Creditors arising out of reinsurance operations

	2011 US\$ 000s	2010 US\$ 000s
The Steamship Mutual Underwriting Association (Reinsurance) Limited	17,602	14,082
Other reinsurance creditors	11,832	10,154
	29,434	24,236

14. Other creditors

	2011 US\$ 000s	2010 US\$ 000s
Unsettled investment transactions	3,550	6,707
Other creditors	635	479
	4,185	7,186

15. Designated reserves

During the course of the year the Trust provided collateral to secure the provision of a letter of credit on behalf of The Steamship Mutual Underwriting Association (Bermuda) Limited under the terms of the International Group Pool designated reserves arrangements. At the balance sheet date the value of the collateral provided was US\$ 7.4 million.

16. Taxation

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

17. Transactions with related parties

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited is the Corporate Trustee of the Trust. It receives a fee for investment management costs and related expenses. For the financial year to 20th February 2011 this fee amounted to US\$ 2.0 million (2010: US\$ 1.7 million) of which US\$ 0.6 million (2010: US\$ 0.4 million) was outstanding at the balance sheet date.

Report of the Independent Auditors

To the Corporate Trustee of The Steamship Mutual Trust

We have audited the financial statements of The Steamship Mutual Trust for the year ended 20th February 2011, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein. These financial statements have been prepared for the purpose of Member and policy holder information.

This report is made solely to the Corporate Trustee in accordance with Section 90 of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the Corporate Trustee those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Corporate Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and Auditors

The Corporate Trustee is responsible for the preparation of the financial statements in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through 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 Report of the Corporate Trustee is consistent with the financial statements. In addition, we report to you if, in our opinion, the Trust has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through 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 Trust's affairs as at 20th February 2011 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Bermuda Companies Act 1981.

Deloitte LLP Chartered Accountants and Registered Auditors

London
10th May 2011