



STEAMSHIP MUTUAL

Report and Accounts 2007



**The Steamship Mutual
Underwriting Association (Bermuda) Limited
(Incorporated under the laws of Bermuda)
and its subsidiary companies**

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The Steamship Mutual Underwriting Association (Bermuda) Limited

(Incorporated under the laws of Bermuda)

Managers

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

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London E1 7LU
Telephone: 020 7247 5490 and 020 7895 8490
Website: www.simsl.com

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Notice of Meeting

Notice is hereby given that the Thirty Third Annual General Meeting of the Members of the Association will be held at the Fairmont Olympic Hotel, Seattle, U.S.A., on Tuesday, 24th July 2007 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 2007.
- 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 A. R. Anderson, Mr D. T. Hsu, Mr H. M. Juniel, Mr J. R. Lean, Mr J. M. Macdonald, Capt J. W. Murray, Mr H. F. L. Schoeller and Mr M. Souri. Being eligible, they offer themselves for re-election, with the exception of Mr A. R. Anderson.
- 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

[J. M. Macdonald](#) Director and Secretary

15th May 2007

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

Directors

Directors

O. H. Fritzner, (Chairman), Stolt Nielsen Transportation Group B.V.
A. Abraha, Ethiopian Shipping Lines
C. J. Ahrenkiel, Ahrenkiel Consulting Services
A. R. Anderson, Conyers, Dill & Pearman
J. L. Brean, Q.C., Metcalf & Co.
H. Golparvar, Islamic Republic of Iran Shipping Lines
A. Grimaldi, (resigned 31st October 2006), Grimaldi Holdings SPA.
I. Grimaldi, (appointed 31st October 2006), Grimaldi Holdings SPA.
S. Hajara, The Shipping Corporation of India Ltd.
D. M. Ho, Magsaysay Maritime Corp.
D. T. Hsu, Far Eastern Textile Ltd.
H. M. Juniel, Reederei F. Laeisz GmbH.
C. S. Kim, (appointed 25th July 2006), Korea Line Corp.
J. R. Lean, Botany Bay Shipping Group Pty Ltd.
J. M. Macdonald, Conyers, Dill & Pearman
A. L. Marchisotto, Moran Transportation Co.
S. Mehta, Essar Global
J. W. Murray, Hapag-Lloyd
S. T. H. Naqvi, Pakistan National Shipping Corp.
P. S. Panagopoulos, Attica Holdings S.A.
J. C. F. Pires, Frota Oceanica Brasileira S.A.
H. F. L. Schoeller, Columbia Shipmanagement Ltd.
B. K. Sheth, The Great Eastern Shipping Co. Ltd.
M. Souri, National Iranian Tanker Co.
A. Tung, Island Navigation Corp. International Ltd.
M. Verde, Augustea Ship Management SRL.
Wang Yu-gui, China Shipowners Mutual Assurance Association
Wei Jia-fu, China Ocean Shipping (Group) Co.

Secretary

J. M. Macdonald, Conyers, Dill & Pearman

Managers

Steamship Mutual Management (Bermuda) Limited

Registered office

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

Administrative offices

Washington Mall 1,
P.O. Box HM 447,
Hamilton HM BX,
Bermuda
Telephone: (441) 295 4502
Telefax: (441) 292 8787

Report of the Directors

The Directors have pleasure in presenting their Report and the Accounts of the Association for the year ended 20th February 2007.

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 2007 stood at approximately 66 million GT.

Directors

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

In accordance with the Act of Incorporation, as amended on 18th April 1984, the undermentioned Directors of the Association hold office until the Annual General Meeting to be held in Seattle on 24th July 2007, when they retire by rotation:

A. Abraha, A. R. Anderson, D. T. Hsu, H. M. Juniel, J. R. Lean, J. M. Macdonald, J. W. Murray, H. F. L. Schoeller, M. Souri.

Being eligible, all the above offer themselves for re-election, with the exception of A. R. Anderson.

Free reserves

The balance on the Technical Account showed a deficit of US\$ 2.98 million for the financial year. The overall surplus for the financial year of US\$ 1.20 million reflects the above technical deficit offset by income from investments and other activities, net of a tax charge of US\$ 2,000.

Free reserves increased from US\$ 65.19 million to US\$ 66.39 million.

Underwriting

During the year additional calls and mutual premium were levied as follows:

- (i) for the year 2006/07 (Class 1 – P&I) 100% mutual premium;
- (ii) for the year 2006/07 (Class 2 – FD&D) 100% mutual premium;
- (iii) for the year 2005/06 (Class 1 – P&I) 15% mutual premium;
- (iv) for the year 2004/05 (Class 1 – P&I) 15% mutual premium;
- (v) for the year 2004/05 (Class 2 – FD&D) 20% mutual premium.

Gross premium totalled US\$ 220.4 million compared to US\$ 209.9 million last year.

The 2003/04 year was closed in May 2006.

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

From the 2006/07 policy year the whole of Class 1 – P&I mutual premium is debited during the policy year and the standard premium debiting pattern is now four equal instalments of 25% to be debited on 20th February, 20th May, 20th August and 20th November respectively.

Class 2 – FD&D mutual premiums are debited in two instalments – one, of 70%, debited on 20th February and the second, of 30%, debited on 20th November of the policy year.

These changes in debiting pattern had the effect of increasing debited premium by approximately US\$ 40 million during the year.

Free reserves

As at 20th February 2007, the combined free reserves of the Association and The Steamship Mutual Trust stood at US\$ 144.6 million, taking account of outstanding deferred mutual premiums. Discounted at a rate of 3.5% over 10 years to take account of "run-off", the combined free reserve figure is US\$ 199.0 million compared with US\$ 184.8 million last year. For the year under review, the Directors had ordered a general increase in Class 1 premiums of 5%. At the 2007 renewal the general increase was 9%.

Tonnage

The level of owned entered tonnage grew by 1.5 million GT during the year. The 2007 renewal saw a number of both new entries and cancellations, resulting in a net increase in owned entered tonnage of 500,000 GT which, when combined with the year on year increase both in the owned and the chartered entry, brought the overall total entered tonnage to 66 million GT.

The Association's policy is to achieve diversity of vessel types and trade 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 2007.

Report of the Directors

Pooling and Reinsurance

The Association's reinsurance programme for the 2006/07 policy year was arranged in conjunction with other member Clubs of the International Group of Protection and Indemnity Clubs. The policy provided an ultimate limit of US\$ 2,044 million in excess of US\$ 6 million, except in relation to oil pollution claims, which were subject to an overall limit of US\$ 1,000 million.

Pooling

For 2007/08, the individual Club retention, before Pooling with other members of the International Group, will increase to US\$ 7 million each claim, and the upper limit of the Pool remains at US\$ 50 million each event.

Excess Loss cover

The Group's Excess of Loss programme was restructured to provide the same limits as for the expiring year, but with free and unlimited reinstatements throughout. At the same time, a collective Overspill Protection policy was added, with a limit of US\$ 1,000 million. Overall premium ratings increased by an average of approximately 5%. The Group continues to retain a 25% coinsurance of the first layer of the contract, from US\$ 50 million to US\$ 500 million each event.

A limit of liability of US\$ 3,000 million any one accident for claims in respect of liability to passengers and seamen, with a sub-limit of US\$ 2,000 million any one accident for claims in respect of passengers, was introduced with effect from 20th February 2007.

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 2007/08 policy year.

Hydra Insurance Company Limited

With effect from 20th February 2007, the liabilities of the Association under the International Group Pooling Agreement for the top layer of the Pool (from US\$ 30 million to US\$ 50 million each event) and for the International 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 Insurance Company Limited. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000. In view of the high level of claims notified to Hydra for the 2006/07 policy year a provision for US\$ 2.3 million of additional funding for Hydra has been included in these Accounts.

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 9% in 2007/08.

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 2006/07 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.

Report of the Directors

Claims

Gross claims and related expenses, including Pool claims, paid during the financial year, increased by 47.3% to US\$ 247.4 million in respect of all policy years as compared to US\$ 168.0 million during the previous financial year, 2005/06. After recoveries from the Group Pool and Excess of Loss contract, claims paid for all years during the financial year amounted to US\$ 196.8 million, an increase of US\$ 36.3 million (22.6%) over the previous year. Claims paid by the Association, net of reinsurance recoveries but including claims handling costs, increased from US\$ 12.8 million, in 2005/06, to US\$ 13.8 million during the year to 20th February 2007.

Net claims paid during the financial year, on a combined basis including both Associations and Trust, amounted to US\$ 162.6 million, an increase of 7.5% from the figure (US\$ 151.2 million) for the 2005/06 financial year. Net outstanding claims increased by 10.0% to US\$ 500.7 million, the highest level for six years. This was an increase of US\$ 45.6 million from net outstanding claims as at 20th February 2006 and reflected the unusually high level of large claims notified in respect of the 2006/07 policy year as well as provision for the Club's contribution to the record level of claims on the International Group Pool for that year.

Gross claims arising in respect of the policy year 2006/07, including IBNRs, are projected to be US\$ 253.7 million, an increase of 18.9% over 2005/06 (US\$ 213.4 million). Claims net of reinsurance recoveries in respect of the policy year amounted to US\$ 203.4 million on a combined basis, an increase of 25.6% over the comparable figure for 2005/06 (US\$ 161.9 million).

During the policy year, through the Club's membership of the International Group, the Managers have monitored developments and participated in initiatives concerning the operation or reform of international conventions governing the liabilities of shipowners in respect of oil pollution, passengers and the carriage of goods by sea.

The fifth, sixth, seventh and eighth issues of "Sea Venture" were published in May and September 2006 and February and May 2007, and throughout the year the Managers also published various articles and news bulletins of topical interest on the Club's website. A third edition of the Club's Claims Handling Guide CD, "A Team Effort" was produced and distributed to Members and correspondents.

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 2006 new programmes were completed dealing with fatigue, free-fall lifeboats, environmental officer training and pilotage. Further details of the Club's loss prevention activities will be included in the Management Highlights.

Policy year statements

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

Investments

The total level of cash and investments held by the Association decreased by 4.6% to US\$ 80.4 million. The total return on financial investments was US\$ 4.0 million.

Report of the Directors

Rules

With the support of advice from the Association's lawyers, the Directors have approved Rule changes, effective from 20th February 2007, to reflect international developments and initiatives in the International Group.

A new provision has been introduced into the Rules, in the interests of verifying and maintaining the quality of entered tonnage, whereby existing or proposed Members consent to arrangements permitting the sharing of survey information amongst the Clubs in the International Group. A new Rule reflects the introduction of limits into the Pooling Agreement, for claims arising in respect of passengers, seamen and others on the entered ship. A new Rule has been introduced clarifying the right of the Club to recover from the Member the amount of any insurance premium or other tax which the Club may be required to pay in the first instance, but which should properly be borne by the Member in relation to the insurance or reinsurance provided by the Club. Other consequential changes to the Rules have been made to bring these into conformity with the Pooling Agreement. Most notable of these is a provision which requires a Member to demonstrate to the satisfaction of the Club's Directors that it had taken reasonable steps to prevent the incident giving rise to a discretionary cargo claim (namely those arising out of unauthorised deviation, delivery of misdescribed cargo, delivery without production of the relevant bill of lading, or of an incorrectly dated bill, or failure of the vessel to arrive or delayed loading) in order to qualify for recovery.

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

In March 2006 the Members of SSM Europe approved the transfer of all of its policies of insurance to The Steamship Mutual Underwriting Association Limited ("SMUA") and authorised the execution of a tripartite Deed of Novation transferring to SMUA the benefits and burdens of all of the reinsurance contracts between the Association and SSM Europe. The portfolio was transferred as at 31st May 2006 giving rise to payments of US\$ 3.7 million to SMUA for portfolio transfer premium. SSM Europe is currently in voluntary liquidation which is expected to be finalised during 2007.

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 reflecting the accumulation of its own capital resources since underwriting recommenced. All Members of SMUA are automatically Members of SSM Bermuda and thus beneficiaries of The Steamship Mutual Trust.

Management Highlights

The Management Highlights will be published in June 2007.

Statement of Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 Company. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

O. H. Fritzner Chairman

Pissouri, Cyprus

15th May 2007

Appendix I – Policy Year Statement – All Classes

| | 2004/05 US\$ 000s | 2005/06 US\$ 000s | 2006/07 US\$ 000s | Total US\$ 000s |
|--|----------------------|----------------------|----------------------|--------------------|
| Open Policy Years – All Classes | | | | |
| Gross premiums | | | | |
| Debited premiums | 199,294 | 187,357 | 219,028 | 605,679 |
| Outstanding deferred instalments | (1) | 19,329 | | 19,328 |
| | 199,293 | 206,686 | 219,028 | 625,007 |
| Less: | | | | |
| Group Excess Loss reinsurance premium | (12,681) | (11,029) | (12,511) | (36,221) |
| Other reinsurance premium | | (940) | (980) | (1,920) |
| Steamship Mutual Trust reinsurance premium | (150,267) | (153,789) | (153,193) | (457,249) |
| Net premiums | 36,345 | 40,928 | 52,344 | 129,617 |
| Gross claims paid | | | | |
| Own claims paid | (66,677) | (118,213) | (27,270) | (212,160) |
| Group Pool claims | (18,214) | (11,000) | (4,397) | (33,611) |
| Claims administration expenses | (13,826) | (12,802) | (13,436) | (40,064) |
| | (98,717) | (142,015) | (45,103) | (285,835) |
| Less: | | | | |
| Pool and Group Excess Loss recoveries | 1,965 | 53,741 | | 55,706 |
| Steamship Mutual Trust reinsurance recoveries | 82,943 | 75,486 | 31,676 | 190,105 |
| Net claims paid | (13,809) | (12,788) | (13,427) | (40,024) |
| Own claims outstanding including IBNRs | (52,999) | (86,719) | (185,069) | (324,787) |
| Group Pool claims outstanding including IBNRs | (10,813) | (10,215) | (29,967) | (50,995) |
| Hydra claims outstanding including IBNRs | | (2,790) | (6,991) | (9,781) |
| Future claims administration expenses | (1,360) | (2,814) | (5,379) | (9,553) |
| Less: | | | | |
| Pool and Group Excess Loss recoveries | 1,179 | 12,683 | 20,824 | 34,686 |
| Steamship Mutual Trust recoveries | 62,633 | 84,251 | 194,212 | 341,096 |
| Net provision for claims outstanding | (1,360) | (5,604) | (12,370) | (19,334) |
| Brokerage | (13,425) | (13,664) | (14,890) | (41,979) |
| Underwriting administration expenses | (4,520) | (4,163) | (4,446) | (13,129) |
| Other expenses | (11,478) | (10,839) | (11,406) | (33,723) |
| Balance on the technical account | (8,247) | (6,130) | (4,195) | (18,572) |
| Investment income (including realised and unrealised) | 2,497 | 3,465 | 4,024 | 9,986 |
| Other income | 1,206 | | | 1,206 |
| Taxation | (20) | (23) | (2) | (45) |
| Open policy years funds available | (4,564) | (2,688) | (173) | (7,425) |
| Closed Policy Years – All Classes | | | | |
| Available balance as at 20th February 2006 | | | | 79,101 |
| Add: | | | | |
| Balance of 2003/04 year as at 20th February 2006 | | | | 2,550 |
| Movements during financial year: | | | | |
| Net premium | | | | (3,749) |
| Net claim recoveries | | | | 22 |
| Expense reductions | | | | 74 |
| Other income | | | | (1,046) |
| Available balance as at 20th February 2007 | | | | 76,952 |
| Own claims outstanding including IBNRs | | | | (209,217) |
| Group Pool claims outstanding including IBNRs | | | | (32,197) |
| Future claims administration expenses | | | | (3,888) |
| Less: | | | | |
| Pool and Group Excess Loss recoveries | | | | 29,803 |
| Steamship Mutual Trust recoveries | | | | 211,611 |
| Net provision for claims outstanding | | | | (3,888) |
| Closed policy years funds available | | | | 73,064 |
| Summary | | | | |
| Open and closed years funds available | | | | 65,639 |
| Reinsurance balance and statutory reserve | | | | 752 |
| Total projected funds available | | | | 66,391 |

Appendix II – Policy Year Statement – P&I Class

| | 2004/05 US\$ 000s | 2005/06 US\$ 000s | 2006/07 US\$ 000s | Total US\$ 000s |
|--|----------------------|----------------------|----------------------|--------------------|
| Open Policy Years – P&I Class | | | | |
| Gross premiums | | | | |
| Debited premiums | 183,390 | 171,925 | 197,103 | 552,418 |
| Outstanding deferred premiums | | 18,433 | | 18,433 |
| | 183,390 | 190,358 | 197,103 | 570,851 |
| Less: | | | | |
| Group Excess Loss reinsurance premium | (12,681) | (11,029) | (12,511) | (36,221) |
| Other reinsurance premium | | (940) | (980) | (1,920) |
| Steamship Mutual Trust reinsurance premium | (137,215) | (140,549) | (135,929) | (413,693) |
| Net premiums | 33,494 | 37,840 | 47,683 | 119,017 |
| Gross claims paid | | | | |
| Own claims paid | (59,727) | (112,669) | (24,571) | (196,967) |
| Group Pool claims | (18,214) | (11,000) | (4,397) | (33,611) |
| Claims administration expenses | (11,798) | (10,915) | (11,137) | (33,850) |
| | (89,739) | (134,584) | (40,105) | (264,428) |
| Less: | | | | |
| Pool and Group Excess Loss recoveries | 1,965 | 53,741 | | 55,706 |
| Steamship Mutual Trust reinsurance recoveries | 75,993 | 69,941 | 28,977 | 174,911 |
| Net claims paid | (11,781) | (10,902) | (11,128) | (33,811) |
| Own claims outstanding including IBNRs | (47,345) | (79,875) | (172,066) | (299,286) |
| Group Pool claims outstanding including IBNRs | (10,813) | (10,215) | (29,967) | (50,995) |
| Hydra claims outstanding including IBNRs | | (2,790) | (6,991) | (9,781) |
| Future claims administration expenses | (1,277) | (2,622) | (4,966) | (8,865) |
| Less: | | | | |
| Pool and Group Excess Loss recoveries | 1,179 | 12,683 | 20,824 | 34,686 |
| Steamship Mutual Trust recoveries | 56,979 | 77,407 | 181,209 | 315,595 |
| Net provision for claims outstanding | (1,277) | (5,412) | (11,957) | (18,646) |
| Brokerage | (12,462) | (12,586) | (13,560) | (38,608) |
| Underwriting administration expenses | (4,095) | (3,757) | (3,898) | (11,750) |
| Other expenses | (10,497) | (9,890) | (10,136) | (30,523) |
| Balance on the technical account | (6,618) | (4,707) | (2,996) | (14,321) |
| Investment income (including realised and unrealised) | 2,293 | 3,177 | 3,597 | 9,067 |
| Other income | 1,206 | | | 1,206 |
| Taxation | (18) | (21) | (2) | (41) |
| Open policy years funds available | (3,137) | (1,551) | 599 | (4,089) |
| Closed Policy Years – P&I Class | | | | |
| Available balance as at 20th February 2006 | | | | 68,185 |
| Add: | | | | |
| Balance of 2003/04 year as at 20th February 2006 | | | | 3,385 |
| Movements during financial year: | | | | |
| Net premium | | | | (3,677) |
| Net claim recoveries | | | | 22 |
| Expense reductions | | | | 65 |
| Other income | | | | (1,046) |
| Available balance as at 20th February 2007 | | | | 66,934 |
| Own claims outstanding including IBNRs | | | | (200,147) |
| Group Pool claims outstanding including IBNRs | | | | (32,197) |
| Future claims administration expenses | | | | (3,745) |
| Less: | | | | |
| Pool and Group Excess Loss recoveries | | | | 29,803 |
| Steamship Mutual Trust recoveries | | | | 202,541 |
| Net provision for claims outstanding | | | | (3,745) |
| Closed policy years funds available | | | | 63,189 |
| Summary | | | | |
| | All Classes | FD&D | Others | P&I |
| Open and closed years funds available | 65,639 | 3,141 | 3,398 | 59,100 |
| Reinsurance balance and statutory reserve | 752 | | | |
| Total projected funds available | 66,391 | | | |

Consolidated Income and Expenditure Account

for the year ended 20th February 2007

| | Note | 2007 US\$ 000s | 2006 US\$ 000s |
|-------------------------------------|------|-------------------|-------------------|
| Technical Account | | | |
| Earned premiums, net of reinsurance | | | |
| | 2 | 220,404 | 209,920 |
| Gross calls and premiums | | | |
| Outward reinsurance premiums: | | | |
| | | (12,953) | (11,349) |
| | 3 | (3,700) | – |
| | 4 | (154,007) | (158,223) |
| a | | 49,744 | 40,348 |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| | 5 | 247,438 | 168,012 |
| Gross amount | | | |
| Reinsurers' share: | | | |
| | 5 | (50,625) | (7,540) |
| | | (183,044) | (147,721) |
| b | | 13,769 | 12,751 |
| Change in the provision for claims | | | |
| | 6 | 41,000 | 14,706 |
| Gross amount | | | |
| Reinsurers' share: | | | |
| | | 27,808 | (8,958) |
| | | (61,273) | (5,776) |
| c | | 7,535 | (28) |
| b+c=d | | 21,304 | 12,723 |
| e | 7 | 31,421 | 28,995 |
| a-d-e | | (2,981) | (1,370) |
| Non-Technical Account | | | |
| | | (2,981) | (1,370) |
| | 8 | 3,229 | 1,998 |
| | 9 | 793 | (796) |
| | 10 | 160 | 3,220 |
| | 11 | (2) | (23) |
| | | 1,199 | 3,029 |

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 2007

| | Note | 2007 US\$ 000s | 2006 US\$ 000s |
|--|------|-------------------|-------------------|
| Assets | | | |
| Investments | | | |
| Land and buildings | 12 | 10,957 | 10,957 |
| Other financial investments | 13 | 61,780 | 64,003 |
| Reinsurers' share of technical provisions | | | |
| Claims outstanding | 6 | 617,197 | 583,732 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 14 | 33,713 | 68,398 |
| Debtors arising out of reinsurance operations | 15 | 21,182 | 23,042 |
| Other debtors | 16 | 2,156 | 3,569 |
| Other assets | | | |
| Cash at bank and in hand | | 7,675 | 9,325 |
| Prepayments and accrued income | | | |
| Deferred acquisition costs | | 94 | 127 |
| Other prepayments and accrued income | | 1,679 | 4,820 |
| Total assets | | 756,433 | 767,973 |
| Liabilities | | | |
| Capital and reserves | | | |
| Free reserves | 17 | 66,391 | 65,192 |
| Technical provisions | | | |
| Provision for unearned premiums | | 1,086 | 1,014 |
| Claims outstanding | 6 | 640,418 | 599,418 |
| Provisions for other risks and charges | | | |
| Provision for taxation | | 21 | 8 |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 4,856 | 6,747 |
| Creditors arising out of reinsurance operations | 18 | 27,161 | 88,088 |
| Other creditors | | 16,500 | 7,506 |
| Total liabilities | | 756,433 | 767,973 |

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 15th May 2007 and signed on their behalf by:

[O. H. Fritzner](#) Chairman

[H. M. Juniel](#) Director

Managers:

Steamship Mutual Management (Bermuda) Limited

Consolidated Cash Flow Statement

for the year ended 20th February 2007

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--|-------------------|-------------------|
| Surplus on ordinary activities before tax | | |
| a | 1,201 | 3,052 |
| | 7,607 | 172 |
| | (793) | 796 |
| | – | (2,264) |
| | 41,112 | 6,242 |
| | (53,824) | 1,542 |
| b | (5,898) | 6,488 |
| a+b=c | (4,697) | 9,540 |
| Cash flow statement | | |
| | (4,697) | 9,540 |
| | 31 | (72) |
| | (4,666) | 9,468 |
| Cash flows were invested as follows: | | |
| d | (1,650) | (3,011) |
| | (5,953) | 2 |
| | (681) | 8,828 |
| | 3,618 | 3,649 |
| e | (3,016) | 12,479 |
| d+e=f | (4,666) | 9,468 |
| | (1,650) | (3,011) |
| d | (3,016) | 12,479 |
| e | (4,666) | 9,468 |
| d+e=f | 793 | (796) |
| g | (3,873) | 8,672 |
| f+g | 73,328 | 64,656 |
| | 69,455 | 73,328 |

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

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

(b) Basis of consolidation

The Group accounts consolidate the accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited and its subsidiary undertakings The Steamship Mutual Underwriting Association (Reinsurance) Limited, Steamship Mutual Property Holdings Limited, The Steamship Mutual Underwriting Association (Europe) Limited and its share of Hydra Insurance Company Limited at 20th February 2007.

(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

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.

(g) Reinsurance premiums and recoveries

Payments made to and recoveries from other Associations under the International Group of P&I Clubs' 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) Investments

Quoted investments have been valued at their mid-market value as at the balance sheet date. Unquoted investments are held at cost less any provision for impairment in value. The unrealised gains and losses on the movement during the year in the market value of investments compared to their cost are included in the non-technical account. 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) Allocation to policy years and classes

Calls and premiums, reinsurance premiums 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.

(j) 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:

| | 2007 | 2006 |
|------------------|-----------|-------|
| Canadian Dollars | C\$ 1.164 | 1.151 |
| Euro | € 0.761 | 0.839 |
| UK Sterling | £ 0.513 | 0.575 |

Notes on the Accounts

2. Gross calls and premiums

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--|-------------------|-------------------|
| Mutual and fixed premiums written | 220,285 | 169,168 |
| Deferred premium and releases | 38,640 | 40,414 |
| Movement in unearned premiums | (71) | (199) |
| Movement in outstanding deferred mutual premiums | (38,450) | 537 |
| | 220,404 | 209,920 |
| Gross calls and premium by destination | | |
| Europe | 88,742 | 83,224 |
| Far East | 49,288 | 47,073 |
| North America | 35,564 | 36,443 |
| Africa and Middle East | 20,419 | 17,962 |
| Indian Sub-Continent | 11,974 | 10,695 |
| Latin America | 14,417 | 14,523 |
| | 220,404 | 209,920 |

Gross calls and premiums relate predominantly to one class of business: Protection and Indemnity.

3. Portfolio transfer

On 31st May 2006 the Association's subsidiary, The Steamship Mutual Underwriting Association (Europe) Limited, executed a portfolio transfer agreement with The Steamship Mutual Underwriting Association Limited. This gave rise to a portfolio transfer premium payment of US\$ 3.7 million.

4. Reinsurance contracts

- (a) The Association and its subsidiary company, The Steamship Mutual Underwriting Association (Reinsurance) Limited (note 19) have contracts whereby they reinsure all outstanding Protection and Indemnity risks and Freight, Demurrage and Defence risks of The Steamship Mutual Underwriting Association Limited for all policy years up to 20th February 1985. From 20th February 1985 until 20th February 1987 the Association both accepted from and ceded to The Steamship Mutual Underwriting Association Limited reinsurance in respect of Freight, Demurrage and Defence risks.
- (b) Under contracts dated 11th March 1983, the Association, through its subsidiary company, The Steamship Mutual Underwriting Association (Reinsurance) Limited, reinsured with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited all of its Protection and Indemnity risks and Freight, Demurrage and Defence risks for the period up to 20th February 1983 and subsequently further contracts for each of the policy years ended, respectively, 20th February 1984 through to 20th February 2007.
- (c) Under an agreement made on the 20th February 2003, the Association agreed to indemnify The Steamship Mutual Underwriting Association Limited in respect of 95% of the first US\$ 30 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million for all policy years through to 2005/06 and in respect of 90% of the first US\$ 30 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million for subsequent policy years.

5. Claims paid – gross amount

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--------------------------------|-------------------|-------------------|
| Claims and related expenses | 216,603 | 134,330 |
| Group Pool claims | 17,051 | 20,720 |
| Claims administration expenses | 13,784 | 12,962 |
| | 247,438 | 168,012 |
| Less reinsurers' share | | |
| Group Pool | 47,562 | 7,187 |
| Group Excess Loss | 3,063 | 353 |
| The Steamship Mutual Trust | 183,044 | 147,721 |
| | 233,669 | 155,261 |
| Net claims paid | 13,769 | 12,751 |

Notes on the Accounts

6. Change in net provision for claims

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--|-------------------|-------------------|
| Gross outstanding claims | | |
| Provision brought forward | (599,418) | (584,712) |
| Provision carried forward | 640,418 | 599,418 |
| a | 41,000 | 14,706 |
| Group Pool and Excess Loss reinsurers' share of outstanding claims | | |
| Provision brought forward | 92,298 | 83,340 |
| Provision carried forward | (64,490) | (92,298) |
| b | 27,808 | (8,958) |
| The Steamship Mutual Trust's share of outstanding claims | | |
| Provision brought forward | 491,434 | 485,658 |
| Provision carried forward | (552,707) | (491,434) |
| c | (61,273) | (5,776) |
| a+b+c | 7,535 | (28) |

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.

7. Net operating expenses

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--------------------------------------|-------------------|-------------------|
| Acquisition costs | | |
| Brokerage | 15,068 | 13,763 |
| Underwriting administration expenses | 4,726 | 4,292 |
| | 19,794 | 18,055 |
| Administrative expenses | | |
| Other administration expenses | 10,987 | 10,325 |
| Directors' remuneration | 393 | 383 |
| Auditors' remuneration | 247 | 232 |
| | 11,627 | 10,940 |
| | 31,421 | 28,995 |

Transactions with related parties

Steamship Mutual Management (Bermuda) Limited provides management and administrative services to Steamship Mutual Underwriting Association (Bermuda) Limited. Under the terms of its management contract Steamship Mutual Management (Bermuda) Limited 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 2007 these fees and expenses amounted to US\$ 27.933 million (2006: US\$ 26.169 million) with US\$ 240,139 outstanding at the year end (2006: US\$ 981,603 prepaid). Since 21st February 2000 the Association has provided the Management Company 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.

8. Investment income

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-------------------------|-------------------|-------------------|
| Dividends and interest | 2,882 | 2,751 |
| Realised gains/(losses) | | |
| Investments | (245) | (54) |
| Exchange | 592 | (699) |
| | 347 | (753) |
| | 3,229 | 1,998 |

Notes on the Accounts

9. Unrealised gains/(losses) on investments

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-------------|-------------------|-------------------|
| Investments | 780 | (783) |
| Exchange | 13 | (13) |
| | <u>793</u> | <u>(796)</u> |

10. Other income

| | 2007 US\$ 000s | 2006 US\$ 000s |
|---|-------------------|-------------------|
| Profit commission earned from the Origin joint venture with AEGIS | 160 | 956 |
| Surplus on revaluation of property (see note 12) | – | 2,264 |
| | <u>160</u> | <u>3,220</u> |

11. Taxation

The charge represents the estimated liability for the accounting years to 20th February 2007 of US\$ 21,105 (2006: US\$ 7,536) and an overprovision of US\$ 467 in the prior year based upon negotiations with the United Kingdom Inland Revenue, and assessed on the investment income of The Steamship Mutual Underwriting Association (Bermuda) Limited for the year, together with an estimated recovery of US\$ 18,104 (2006: liability US\$ 15,185) for The Steamship Mutual Underwriting Association (Europe) Limited.

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 Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda government exempting it from all such taxes until 28th March 2016.

12. 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 the Managers of the Association. The property was valued by CB Richard Ellis Limited at £6,300,000 (US\$ 10,956,522) reflecting the market value at 20th February 2006. This resulted in a revaluation gain of US\$ 2,263,772 since the last valuation three years earlier. The original costs incurred when the property was purchased in 1987 amounted to US\$ 16,952,226.

13. Other financial investments

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-----------------------------------|-------------------|-------------------|
| Market value | | |
| Bonds and loans | 48,517 | 46,804 |
| Equities | 146 | 133 |
| Money market instruments | 4,323 | 11,890 |
| Deposits with credit institutions | 8,794 | 5,176 |
| | <u>61,780</u> | <u>64,003</u> |
| Cost | | |
| Bonds and loans | 47,898 | 46,965 |
| Equities | 485 | 485 |
| Money market instruments | 4,323 | 11,890 |
| Deposits with credit institutions | 8,794 | 5,176 |
| | <u>61,500</u> | <u>64,516</u> |

Unquoted investments of US\$ 146,073 (2006: US\$ 132,511) are carried in the accounts at their original euro cost less a provision for a permanent diminution in value.

Notes on the Accounts

14. Debtors arising out of direct insurance operations

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--------------------------------------|-------------------|-------------------|
| Mutual premiums due | 14,384 | 10,619 |
| Outstanding deferred mutual premiums | 19,329 | 57,779 |
| | 33,713 | 68,398 |

The outstanding deferred mutual premiums relate to the following classes and policy years:

Class 1

| | | |
|---------|--------|--------|
| 2004/05 | – | 17,799 |
| 2005/06 | 18,433 | 38,111 |

Class 2

| | | |
|---------|-----|-----|
| 2004/05 | – | 924 |
| 2005/06 | 896 | 945 |

| | |
|--------|--------|
| 19,329 | 57,779 |
|--------|--------|

15. Debtors arising out of reinsurance operations

| | 2007 US\$ 000s | 2006 US\$ 000s |
|----------------------------|-------------------|-------------------|
| Group Clubs | 366 | 644 |
| The Steamship Mutual Trust | 19,092 | 20,674 |
| Other debtors | 1,724 | 1,724 |
| | 21,182 | 23,042 |

16. Other debtors

| | 2007 US\$ 000s | 2006 US\$ 000s |
|----------------------|-------------------|-------------------|
| Balances with agents | 332 | 504 |
| Other debtors | 1,824 | 3,065 |
| | 2,156 | 3,569 |

17. Free reserves

| | 2007 US\$ 000s | 2006 US\$ 000s |
|----------------------------------|-------------------|-------------------|
| Statutory reserve | 240 | 240 |
| Accumulated fund brought forward | 64,952 | 61,923 |
| Surplus for year | 1,199 | 3,029 |
| | 66,391 | 65,192 |

The balance carried forward, of US\$ 66,391,397, together with any further calls 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 calls and premiums. The Directors and Managers are of the opinion that the Association has adequate assets and contractual arrangements to meet known and anticipated liabilities.

18. Creditors arising out of reinsurance operations

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-----------------------------|-------------------|-------------------|
| Group Clubs and Excess Loss | 2,681 | 1,393 |
| The Steamship Mutual Trust | 24,480 | 86,695 |
| | 27,161 | 88,088 |

Notes on the Accounts

19. Wholly owned subsidiary companies

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

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

Under the terms of the constitution of SSM Europe the Association controls 75% of the votes, with the balance held by Members of SSM Europe. All Members of SSM Europe are automatically Members of the Association and beneficiaries of The Steamship Mutual Trust. SSM Europe is currently in voluntary liquidation which is expected to be finalised in 2007.

21. Hydra Insurance Company Limited (“Hydra”)

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

22. Security

During the course of the year to 20th February 1997, the Directors authorised the setting up of a trust to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US\$ 6.099 million had been allocated to the trust. For many years the Association has deposited funds with the Wachovia Bank, NA as trustee of the Trust Agreement dated 7th April 1966 between various member Associations of the International Group of P&I Associations 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\$ 2.092 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 2007, which comprise the consolidated income and expenditure account, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein. These financial statements have been prepared for the purpose of Member and policy holder information.

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

[Respective responsibilities of Directors and Auditors](#)

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

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

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

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

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

[Basis of audit opinion](#)

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

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

[Opinion](#)

In our opinion

- the financial statements give a true and fair view in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through the United Kingdom Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and generally accepted United Kingdom accounting principles applicable to insurers of the state of the Company's affairs as at 20th February 2007 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 & Touche LLP](#)

Chartered Accountants and Registered Auditors
London

15th May 2007

**The Steamship Mutual
Underwriting Association Limited**

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The Steamship Mutual Underwriting Association Limited

Managers

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

Notice of Meeting

Notice is hereby given that the Ninety Eighth Annual General Meeting of the Members of the Company will be held at the Fairmont Olympic Hotel, Seattle, U.S.A., on Tuesday, 24th July 2007 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 2007, 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 10.2 of the Association are Mr J. L. Brean, Q.C., Mr H. M. Juniel and Mr M. Souri. 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

[R. A. Lakeman](#) Secretary

15th May 2007

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

Directors

[Directors](#)

M. Souri, (Chairman), National Iranian Tanker Co.
C. J. Ahrenkiel, Ahrenkiel Consulting Services
J. L. Brean, Q.C., Metcalf & Co.
I. Grimaldi, Grimaldi Holdings SPA
H. M. Juniel, Reederei F. Laeisz GmbH.
A. L. Marchisotto, Moran Transportation Co.
J. W. Murray, Hapag-Lloyd
M. L. Valmas, The Syros Shipping Co. (L.M. Valmas & Son) Ltd.

[Secretary](#)

R. A. Lakeman, Steamship Insurance Management

[Managers](#)

Steamship Insurance Management

[Registered office](#)

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

[Registered number](#)

105461

Report of the Directors

The Directors have pleasure in presenting their Report and the Accounts of the Association for the year ended 20th February 2007.

Principal activities

The Association is a company limited by guarantee. The principal activities of the Association were the insurance and reinsurance of Protection and Indemnity risks (P&I), and of Freight, Demurrage and Defence (FD&D) risks on behalf of Members. The total owned entered tonnage as at 20th February 2007 stood at approximately 7.6 million gross tons.

The Association remains a member of the International Group of P&I Clubs and is entitled to all the benefits of the International Group Pool and General Excess Loss arrangements.

Directors

The Directors of the Association are as shown on page 2.

In accordance with Article 10.2 of the Articles of Association, one-third of the Directors of the Board retire from office at each Annual General Meeting. The Directors retiring by rotation are J. L. Brean, Q.C., H. M. Juniel, and M. Souril. Being eligible, they offer themselves for re-election.

Free reserves

The balance on the technical account for general business showed a surplus of US\$ 2.8 million for the financial year. The overall surplus for the financial year of US\$ 3.3 million reflects the above technical surplus together with investment income of US\$ 547,000 and a tax charge of US\$ 84,956. Free reserves increased from US\$ 10.3 million to US\$ 13.6 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 Group does not engage in hedging or any other type of derivative activity.

Underwriting

During the year mutual premium was levied as follows:

- (i) for the year 2006/07 (Class 1 – P&I) 100% mutual premium;
- (ii) for the year 2006/07 (Class 2 – FD&D) 100% mutual premium;
- (iii) for the year 2005/06 (Class 1 – P&I) 15% mutual premium;
- (iv) for the year 2004/05 (Class 1 – P&I) 15% mutual premium;
- (v) for the year 2004/05 (Class 2 – FD&D) 20% mutual premium.

Gross premium written totalled US\$ 53.0 million compared to US\$ 48.5 million last year and the combined ratio, a key financial performance indicator, increased from 61.5% to 72.6%.

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

At the 2007 renewal the Directors ordered a general increase of 9% to ensure that the Association would be in a position to meet its obligations under its reinsurance arrangements with The Steamship Mutual Underwriting Association (Bermuda) Limited ("SSM Bermuda") referred to below.

From the 2006/07 policy year the whole of Class 1 – P&I mutual premium is debited during the policy year and the standard premium debiting pattern is now four equal instalments of 25% to be debited on 20th February, 20th May, 20th August and 20th November respectively.

Class 2 – FD&D mutual premiums are debited in two instalments – one, of 70%, debited on 20th February and the second, of 30%, debited on 20th November of the policy year.

Tonnage

The level of entered tonnage rose during the year from 5.3 million to approximately 7.6 million gross tons.

Report of the Directors

Pooling and Reinsurance

The Association's reinsurance programme for the 2006/07 policy year was arranged in conjunction with other member Clubs of the International Group of Protection and Indemnity Clubs. The policy provided an ultimate limit of US\$ 2,044 million in excess of US\$ 6 million, except in relation to oil pollution claims, which were subject to an overall limit of US\$ 1,000 million.

Pooling

For 2007/08, the individual Club retention, before Pooling with other members of the International Group, will increase to US\$ 7 million each claim, and the upper limit of the Pool remains at US\$ 50 million each event.

Excess Loss cover

The Group's Excess of Loss programme was restructured to provide the same limits as for the expiring year, but with free and unlimited reinstatements throughout. At the same time, a collective Overspill Protection policy was added, with a limit of US\$ 1,000 million. Overall premium ratings increased by an average of approximately 5%. The Group continues to retain a 25% coinsurance of the first layer of the contract, from US\$ 50 million to US\$ 500 million each event.

A limit of liability of US\$ 3,000 million any one accident for claims in respect of liability to passengers and seamen, with a sub-limit of US\$ 2,000 million any one accident for claims in respect of passengers, was introduced with effect from 20th February 2007.

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 2007/08 policy year.

Hydra Insurance Company Limited

With effect from 20th February 2007, the liabilities of the Association under the International Group Pooling Agreement for the top layer of the Pool (from US\$ 30 million to US\$ 50 million each event) and for the International 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 Insurance Company Limited. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

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 9% in 2007/08.

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 reflecting the accumulation of its own capital resources since underwriting recommenced. 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 2007, to reflect international developments and initiatives in the International Group.

A new provision has been introduced into the Rules, in the interests of verifying and maintaining the quality of entered tonnage, whereby existing or proposed Members consent to arrangements permitting the sharing of survey information amongst the Clubs in the International Group. A new Rule reflects the introduction of limits into the Pooling Agreement, for claims arising in respect of passengers, seamen and others on the entered ship. A new Rule has been introduced clarifying the right of the Club to recover from the Member the amount of any insurance premium or other tax which the Club may be required to pay in the first instance, but which should properly be borne by the Member in relation to the insurance or reinsurance provided by the Club. Other consequential changes to the Rules have been made to bring these into conformity with the Pooling Agreement. Most notable of these is a provision which requires a Member to demonstrate to the satisfaction of the Club's Directors that it had taken reasonable steps to prevent the incident giving rise to a discretionary cargo claim (namely those arising out of unauthorised deviation, delivery of misdescribed cargo, delivery without production of the relevant bill of lading, or of an incorrectly dated bill, or failure of the vessel to arrive or delayed loading) in order to qualify for recovery.

Report of the Directors

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

On 31st May 2006 the Association executed:

- (i) a Portfolio Transfer Agreement with SSM Europe;
- (ii) a tripartite Deed of Novation transferring to the Association the benefits and burdens of all of the reinsurance contracts between SSM Bermuda and SSM Europe; and
- (iii) a tripartite Deed of Novation transferring to the Association the benefits and burdens of all of the reinsurance contracts between SSM Europe and the North of England Protecting and Indemnity Association Limited.

The Association received a portfolio transfer premium of US\$ 3.7 million.

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 Company as at the end of the financial year and of the surplus or deficit of the Company 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 Company 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 Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Company'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 company's auditors are unaware; and
- the Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

M. Souri Chairman

Managers

Steamship Insurance Management

Pissouri, Cyprus

15th May 2007

Appendix I – Policy Year Statement – All Classes

| | 2004/05 US\$ 000s | 2005/06 US\$ 000s | 2006/07 US\$ 000s | Total US\$ 000s |
|--|----------------------|----------------------|----------------------|--------------------|
| Open Policy Years – All Classes | | | | |
| Gross premiums | | | | |
| Debited premiums | 44,257 | 43,742 | 49,373 | 137,372 |
| Outstanding deferred premiums | | 4,245 | | 4,245 |
| | 44,257 | 47,987 | 49,373 | 141,617 |
| Less: | | | | |
| SSM Bermuda reinsurance premium | (36,943) | (39,877) | (42,201) | (119,021) |
| Net premiums | 7,314 | 8,110 | 7,172 | 22,596 |
| Gross claims paid | | | | |
| Own claims paid | (7,714) | (11,606) | (1,717) | (21,037) |
| Claims administration expenses | (560) | (565) | (617) | (1,742) |
| | (8,274) | (12,171) | (2,334) | (22,779) |
| Less: | | | | |
| Other reinsurance recoveries | 7,328 | 11,025 | 1,545 | 19,898 |
| Net claims paid | (946) | (1,146) | (789) | (2,881) |
| Claims outstanding including IBNRs | (15,489) | (18,932) | (36,302) | (70,723) |
| Less: | | | | |
| SSM Bermuda reinsurance recoveries | 14,715 | 18,010 | 33,471 | 66,196 |
| Net provision for claims outstanding | (774) | (922) | (2,831) | (4,527) |
| Brokerage | (2,194) | (2,220) | (2,296) | (6,710) |
| Underwriting administration expenses | (450) | (456) | (496) | (1,402) |
| Other expenses | (503) | (882) | (930) | (2,315) |
| Balance on the technical account | 2,447 | 2,484 | (170) | 4,761 |
| Investment income (including realised and unrealised) | 118 | 360 | 546 | 1,024 |
| Taxation | (22) | (82) | (85) | (189) |
| Open policy years funds available | 2,543 | 2,762 | 291 | 5,596 |
| Closed Policy Years – All Classes | | | | |
| | | | | Total US\$ 000s |
| Available balance as at 20th February 2006 | | | | 377 |
| Add: | | | | |
| Balance of 2003/04 year as at 20th February 2006 | | | | 4,744 |
| Movements during financial year: | | | | |
| Net premiums | | | | 3,430 |
| Net claims paid | | | | (198) |
| Expenses | | | | 43 |
| Available balance as at 20th February 2007 | | | | 8,396 |
| Claims outstanding | | | | (10,145) |
| Less: | | | | |
| Group Excess Loss and Pool recoveries | | | | 476 |
| Other reinsurance recoveries | | | | 9,236 |
| Net provision for claims outstanding | | | | (433) |
| Closed policy years funds available | | | | 7,963 |
| Summary | | | | |
| | | | | Total US\$ 000s |
| Open and closed years funds available | | | | 13,559 |
| Reinsurance balance | | | | (3) |
| Total projected funds available | | | | 13,556 |

Appendix II – Policy Year Statement – P&I Class

| | 2004/05 US\$ 000s | 2005/06 US\$ 000s | 2006/07 US\$ 000s | Total US\$ 000s |
|--|----------------------|----------------------|----------------------|--------------------|
| Open Policy Years – P&I Class | | | | |
| Gross premiums | | | | |
| Debited premiums | 42,974 | 42,091 | 46,114 | 131,179 |
| Outstanding deferred premiums | | 4,213 | | 4,213 |
| | 42,974 | 46,304 | 46,114 | 135,392 |
| Less: | | | | |
| SSM Bermuda reinsurance premium | (35,436) | (38,423) | (39,390) | (113,249) |
| Net premiums | 7,538 | 7,881 | 6,724 | 22,143 |
| Gross claims paid | | | | |
| Own claims paid | (7,015) | (11,534) | (1,697) | (20,246) |
| Claims administration expenses | (537) | (544) | (565) | (1,646) |
| | (7,552) | (12,078) | (2,262) | (21,892) |
| Less: | | | | |
| SSM Bermuda reinsurance recoveries | 6,663 | 10,957 | 1,527 | 19,147 |
| Net claims paid | (889) | (1,121) | (735) | (2,745) |
| Claims outstanding including IBNRs | (15,440) | (18,897) | (35,778) | (70,115) |
| Less: | | | | |
| SSM Bermuda reinsurance recoveries | 14,668 | 17,977 | 32,999 | 65,644 |
| Net provision for claims outstanding | (772) | (920) | (2,779) | (4,471) |
| Brokerage | (2,156) | (2,158) | (2,158) | (6,472) |
| Underwriting administration expenses | (432) | (439) | (455) | (1,326) |
| Other expenses | (486) | (850) | (864) | (2,200) |
| Balance on the technical account | 2,803 | 2,393 | (267) | 4,929 |
| Investment income (including realised and unrealised) | 116 | 347 | 513 | 976 |
| Taxation | (22) | (79) | (80) | (181) |
| Open policy years funds available | 2,897 | 2,661 | 166 | 5,724 |
| | | | | Total US\$ 000s |
| Closed Policy Years – P&I Class | | | | |
| Available balance as at 20th February 2006 | | | | 377 |
| Add: | | | | |
| Balance of 2003/04 year as at 20th February 2006 | | | | 4,656 |
| Movements during financial year: | | | | |
| Net premiums | | | | 3,432 |
| Net claims paid | | | | (197) |
| Expenses | | | | 43 |
| Available balance as at 20th February 2007 | | | | 8,311 |
| Claims outstanding including IBNRs | | | | (10,119) |
| Future claims administration expenses | | | | |
| Less: | | | | |
| Group Excess Loss and Pool recoveries | | | | 476 |
| Other reinsurance recoveries | | | | 9,211 |
| Net provision for claims outstanding | | | | (432) |
| Closed policy years funds available | | | | 7,879 |
| Summary | | | | |
| | All Classes | FD&D | Others | P&I |
| Open and closed years funds available | 13,559 | 174 | (218) | 13,603 |
| Reinsurance balance | (3) | | | |
| Total projected funds available | 13,556 | | | |

Income and Expenditure Account

for the year ended 20th February 2007

| | Note | 2007 US\$ 000s | 2006 US\$ 000s |
|---|------|-------------------|-------------------|
| Technical Account | | | |
| Earned premiums, net of reinsurance | | | |
| Gross calls and premiums | 2 | 52,959 | 48,515 |
| Outward reinsurance premiums | 4 | (42,611) | (40,101) |
| a Earned premiums, net of reinsurance | | <u>10,348</u> | <u>8,414</u> |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| Gross amount | 5 | 22,280 | 6,030 |
| Reinsurers' share | | (20,421) | (5,159) |
| b Net claims paid | | <u>1,859</u> | <u>871</u> |
| Change in the provision for claims | | | |
| Gross amount | | 20,424 | 13,931 |
| Reinsurers' share | | (18,476) | (13,225) |
| c Change in the net provision for claims | | <u>1,948</u> | <u>706</u> |
| b+c=d Claims incurred, net of reinsurance | | <u>3,807</u> | <u>1,577</u> |
| e Net operating expenses | 6 | <u>3,702</u> | <u>3,599</u> |
| a-d-e Balance on the technical account for general business | | <u>2,839</u> | <u>3,238</u> |
| Non-Technical Account | | | |
| Balance on the general business technical account | | 2,839 | 3,238 |
| Investment income | | 547 | 360 |
| Surplus on ordinary activities before taxation | | <u>3,386</u> | <u>3,598</u> |
| Taxation | 7 | (85) | (82) |
| Surplus for the financial year | | <u>3,301</u> | <u>3,516</u> |
| Free reserves brought forward | | <u>10,255</u> | <u>6,739</u> |
| Free reserves | | <u>13,556</u> | <u>10,255</u> |

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

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

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

Balance Sheet

as at 20th February 2007

| | Note | 2007 US\$ 000s | 2006 US\$ 000s |
|--|------|-------------------|-------------------|
| Assets | | | |
| Investments | | | |
| Other financial investments | 8 | 4,767 | 11,476 |
| Reinsurers' share of technical provisions | | | |
| Claims outstanding | | 75,908 | 57,432 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 9 | 7,222 | 14,103 |
| Debtors arising out of reinsurance operations | | 11,592 | 1,119 |
| Other debtors | | 22 | 15 |
| Other assets | | | |
| Cash at bank and in hand | | 1,122 | 960 |
| Prepayments and accrued income | | | |
| Deferred acquisition costs | | 6 | 7 |
| Other prepayments and accrued income | | 10 | 10 |
| Total assets | | 100,649 | 85,122 |
| Liabilities | | | |
| Capital and reserves | | | |
| Free reserves | 10 | 13,556 | 10,255 |
| Technical provisions | | | |
| Provision for unearned premiums | | 784 | 293 |
| Claims outstanding | | 80,869 | 60,445 |
| Provisions for other risks and charges | | | |
| Provision for taxation | | 88 | 82 |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 415 | 405 |
| Creditors arising out of reinsurance operations | | 4,246 | 12,662 |
| Other creditors including taxation and social security | | 691 | 980 |
| Total liabilities | | 100,649 | 85,122 |

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 15th May 2007.

[M. Souri](#) Chairman

[J. L. Brean, Q.C.](#) Director

Managers:

Steamship Insurance Management

Cash Flow Statement

for the year ended 20th February 2007

| | 2007 US\$ 000s | 2006 US\$ 000s | |
|--|--|-------------------|--------|
| Surplus on ordinary activities before tax | | | |
| a | Operating surplus before taxation after interest | 3,386 | 3,598 |
| | Increase in general insurance technical provisions | 2,439 | 699 |
| | (Increase)/decrease in debtors | (3,598) | 439 |
| | Decrease in creditors | (8,695) | (69) |
| b | | (9,854) | 1,069 |
| a+b=c | Net cash (outflow)/inflow from operating activities | (6,468) | 4,667 |
| Cash flow statement | | | |
| | Net cash (outflow)/inflow from operating activities | (6,468) | 4,667 |
| | Taxation paid | (79) | (20) |
| | | (6,547) | 4,647 |
| Cash flows were invested as follows: | | | |
| d | Increase/(decrease) in cash holdings | 162 | (205) |
| | Net portfolio investment | | |
| e | (Sale)/purchase of money market instruments | (6,709) | 4,852 |
| d+e=f | Net investment of cash flows | (6,547) | 4,647 |
| Movement in opening and closing portfolio investments net of financing | | | |
| d | Net cash inflow/(outflow) for the period | 162 | (205) |
| e | Portfolio investments | (6,709) | 4,852 |
| d+e=f | Total movement in portfolio investments net of financing | (6,547) | 4,647 |
| | Portfolio investments net of financing at 20th February 2006 | 12,436 | 7,789 |
| | Portfolio investments net of financing at 20th February 2007 | 5,889 | 12,436 |

Notes on the Accounts

1. Accounting policies

(a) Accounting convention

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

(b) 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.

(c) 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.

(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 premiums 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 premiums and recoveries

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

(g) Investments

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

(h) Allocation to policy years and classes

Calls and premiums, reinsurance premiums 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.

(i) Foreign currencies

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

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

| | 2007 | 2006 |
|-------------|---------|-------|
| Euro | € 0.761 | 0.839 |
| UK Sterling | £ 0.513 | 0.575 |

Notes on the Accounts

2. Gross calls and premiums

| | 2007 US\$ 000s | 2006 US\$ 000s |
|---|-------------------|-------------------|
| Mutual and fixed premiums written | 49,436 | 39,013 |
| Deferred premium and releases | 8,731 | 9,390 |
| Portfolio transfer premium (see note 3 below) | 3,700 | – |
| Movement in unearned premiums | (491) | 7 |
| Movement in outstanding deferred mutual premiums | (8,417) | 105 |
| | 52,959 | 48,515 |
| Gross calls and premium by class of business | | |
| Protection and Indemnity | 49,414 | 46,400 |
| Freight, Demurrage and Defence | 691 | 698 |
| Other | 2,854 | 1,417 |
| | 52,959 | 48,515 |
| Gross calls and premium by destination | | |
| United States of America | 35,541 | 34,106 |
| Mexico | 4,155 | 3,154 |
| Luxembourg – Portfolio transfer premium | 3,700 | – |
| Germany | 3,326 | 3,410 |
| Netherlands | 2,640 | 4,547 |
| Brazil | 2,490 | 2,552 |
| Other countries | 1,107 | 746 |
| | 52,959 | 48,515 |

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

3. Portfolio transfer

On 31st May 2006 the Association executed a portfolio transfer agreement with The Steamship Mutual Underwriting Association (Europe) Limited. This gave rise to a portfolio transfer premium receipt of US\$ 3.7 million.

4. Reinsurance contracts

The Association has the following reinsurance arrangement:

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

5. Claims paid – gross amount

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--------------------------------|-------------------|-------------------|
| Claims and related expenses | 21,577 | 5,412 |
| Claims administration expenses | 703 | 618 |
| | 22,280 | 6,030 |

6. Net operating expenses

| | 2007 US\$ 000s | 2006 US\$ 000s |
|---|-------------------|-------------------|
| Acquisition costs | | |
| Brokerage | 2,152 | 2,185 |
| Underwriting administration expenses | 566 | 498 |
| | 2,718 | 2,683 |
| Administrative expenses | | |
| Other administration expenses | 581 | 595 |
| Federal Excise Tax | 357 | 286 |
| Directors' remuneration | 6 | 5 |
| Auditors' remuneration – audit services | 40 | 30 |
| | 984 | 916 |
| | 3,702 | 3,599 |

The Association had no employees in either financial year.

Notes on the Accounts

6. Net operating expenses (continued)

Transactions with related parties

Steamship Insurance Management provides management and administrative services to The Steamship Mutual Underwriting Association Limited. Under the terms of its management contract Steamship Insurance Management 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 2007 these fees amounted to US\$ 1.715 million (2006: US\$ 1.508 million). US\$ 287,075 (2006: US\$ 68,777) was outstanding at the year end.

7. Taxation

The charge represents the estimated liability for the accounting year to 20th February 2007 of US\$ 87,948 (2006: US\$ 82,147) and an overprovision of US\$ 2,992 in the prior year based upon negotiations with the United Kingdom tax authorities, assessed on the investment income of The Steamship Mutual Underwriting Association Limited for the relevant years.

| | 2007 US\$ 000s | 2006 US\$ 000s |
|---|-------------------|-------------------|
| Analysis of tax charge on ordinary activities | | |
| United Kingdom corporation tax at 19% based on the deficit for the financial year | (88) | (82) |
| Adjustment in respect of prior years | 3 | – |
| | <u>(85)</u> | <u>(82)</u> |

Factors affecting tax charge for the current period

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

| | | |
|---|-------------|-------------|
| Surplus on ordinary activities before tax | 3,386 | 3,598 |
| Tax at 19% thereon | (643) | (684) |
| Effects of expenses not deductible for tax purposes | 555 | 602 |
| Prior period adjustments | 3 | – |
| Current tax charge for period | <u>(85)</u> | <u>(82)</u> |

8. Other financial investments

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--------------------------|-------------------|-------------------|
| Market value | | |
| Money market instruments | 4,767 | 11,476 |
| | <u>4,767</u> | <u>11,476</u> |
| Cost | | |
| Money market instruments | 4,767 | 11,476 |
| | <u>4,767</u> | <u>11,476</u> |

All investments are listed.

9. Debtors arising out of direct insurance operations

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--------------------------------------|-------------------|-------------------|
| Mutual premiums due | 2,977 | 1,441 |
| Outstanding deferred mutual premiums | 4,245 | 12,662 |
| | <u>7,222</u> | <u>14,103</u> |

The outstanding deferred mutual premiums relate to the following classes and policy years:

Class 1

| | | |
|---------|-------|-------|
| 2004/05 | – | 4,006 |
| 2005/06 | 4,213 | 8,566 |

Class 2

| | | |
|---------|----|----|
| 2004/05 | – | 50 |
| 2005/06 | 32 | 40 |

| | | |
|--|--------------|---------------|
| | <u>4,245</u> | <u>12,662</u> |
|--|--------------|---------------|

Notes on the Accounts

10. Free reserves

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-------------------------------|-------------------|-------------------|
| Free reserves brought forward | 10,255 | 6,739 |
| Surplus for year | 3,301 | 3,516 |
| | <u>13,556</u> | <u>10,255</u> |

The balance carried forward of US\$ 13,555,958 together with any further calls 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 calls and premiums. 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 2007, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 10. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's Members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 20th February 2007 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

15th May 2007

The Steamship Mutual Trust

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Directors of the Corporate Trustee

The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited Directors of the Corporate Trustee

H. S. Frank, Carnival Corporation (Chairman – appointed 24th July 2006)
S. von Appen, Sociedad Naviera Ultragas Ltda.
J. G. Conyers, First Bermuda Securities Ltd.
A. Exel, ISIS Ltd.
O. H. Fritzner, Stolt Nielsen Transportation Group BV Shipowning
C. C. Tung, Orient Overseas (International) Ltd.

Secretary of the Corporate Trustee

A. R. Anderson, Conyers, Dill & Pearman

Manager of the Corporate Trustee

Hamilton Investment Management Limited

Registered office of the Corporate Trustee

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

Administrative offices of the Corporate Trustee

Washington Mall 1,
P.O. Box HM 447,
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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 2007.

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 2006 to 20th February 2007 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\$ 154.0 million.

Accounts

The surplus of funds available to meet outstanding claims as at 20th February 2007 reduced by US\$ 3.7 million to US\$ 78.2 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\$ 693.0 million, an increase of US\$ 63.9 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

Global equities had another strong year, rising nearly 20% in dollar terms despite a sharp sell-off in the second quarter. Robust earnings growth helped stocks overcome an inflation scare and concerns about slowing economic growth. Global liquidity remained high, even as central banks raised interest rates, fuelling a boom in buy-outs and merger and acquisition activity. Europe posted some of the strongest returns, the FTSE Eurotop 300 index rising by 27.2%, as the economic recovery gained traction. By contrast, Japan was relatively subdued and could only just match the US market return of 13%. Investor concerns included weak domestic demand, market scandals and the possibility of overly aggressive tightening by the Bank of Japan. Despite a 25% slide in the summer, over the year as a whole emerging market equities posted outsized returns for the fourth year in a row, boosted by robust earnings growth, low long term interest rates, and, in many cases, strong commodity prices. Shortly after the end of the financial year global equity markets dropped sharply following a sell-off in China that exacerbated fears of a slowing global economy. For the year as a whole telecommunication services was the top performing sector with energy and utilities also performing well, as energy prices remained high. The health care sector fared the worst, weighed down by patent suits and drug-trial problems.

The S&P index gained 13.1% over the financial year, while the MSCI All Countries ex US index rose by 25.6% in dollar terms, with the main equity indices in Germany and Hong Kong both gaining over 30%. In local currency terms Singapore proved to be the strongest developed market gaining 33.1%.

US dollar bonds, on the other hand, struggled to make positive total returns as interest rates rose across the yield curve last year, driven by a tighter than expected Federal Reserve and a stronger than expected US economy in the first half of the year. The Federal Reserve raised its target funds rate by 25 basis points at each of its first three meetings of the financial year, exceeding the market's expectation that only one more tightening was likely to occur after January 2006. Ben Bernanke, the new Chairman of the Federal Reserve, gave no indication of any significant shift in policy and, beginning with its August meeting, the Fed adopted a wait and see attitude to judging the extent to which the housing slowdown would impact the rest of the economy. Credit spreads tightened, on balance, thanks to the relatively stable economy, low default rates and strong profits growth. Bond yields rose again at the beginning of 2007, as stronger than expected economic news prompted the market to reduce its expectations of future easing. By the end of the financial year, expectations had reduced to just one cut before the end of 2007. Non-dollar bond markets had mixed results. At the beginning of 2007 the Bank of Japan surprised the market by not raising rates, thus keeping Japanese yields relatively stable, and conversely the Bank of England surprised the market by tightening, pushing yields higher across the curve.

Overall US bonds earned a modest return, with the Lehman Brothers US Aggregate Bond index rising by just 5.0%. High yield bonds had another good year and corporate bonds climbed in the second half of 2006, despite a steady flow of corporate debt issuance to pay for acquisitions, leveraged buy-outs and refinancing. European bond returns struggled as monetary policy was tightened progressively throughout the year. However US dollar returns were boosted by the significant strengthening of European currencies against the US dollar.

Report of the Corporate Trustee

Investments continued

Following a strong first quarter, US economic growth decelerated to a moderate pace as the year progressed. A big drop in energy prices resulted in a substantial decline in headline inflation, but core inflation drifted higher, approaching 2.5%. US inflation was pushed up by the decline in the dollar against most major currencies, which was mirrored by the gains in gold and industrial commodity prices. By the fourth quarter, this was being offset by a significant downturn in the US housing market which, coupled with some developing weakness in the manufacturing sector, gave rise to the widely held perception that the US economy was likely to slow enough to reduce inflationary pressures, allowing the Federal Reserve to adopt an easing posture in 2007. Despite this the labour market exhibited modest but steady growth in jobs, and the unemployment rate declined from 4.8% to 4.6%.

Sterling and the euro gained by 11.9% and 9.3%, respectively, against the US dollar. Most Asian currencies made single figure gains, with the exception of the Japanese yen which fell by 1.1%, influenced by the continued popularity of the carry trade and signs of weakness in the Japanese economy. Improvements in domestic eurozone economies and rising interest rates served to bolster the euro, as did the pause in the US Federal Reserve's monetary tightening.

The Trust's overall return of 9.9% exceeded its benchmark marginally, with continued good performance by its fixed income managers successfully offsetting the underperformance of its non-US equity manager, Alliance Bernstein. In their first year since appointment, Alliance Bernstein achieved a return of over 18%, but a seventh successive year of underperformance by growth stocks resulted in their portfolio failing to beat their benchmark. The operation of the revised asset allocation, implemented in April 2006, was kept under continuous review by the Corporate Trustee and a number of adjustments were made shortly after the year end. Investments in hedge fund of funds were increased from 5.4% to 16.4% of the portfolio, divided equally among three separate managers, two of them new. This increase was funded from a reduction in the US fixed income allocation and the redemption of two existing alternative funds which were no longer considered to be attractive in risk/reward terms.

Claims

Net claims and related expenses paid increased during the financial year by 7.5% to US\$ 148.8 million.

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

Statement of Trustee's responsibilities

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

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

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

[H. S. Frank Chairman](#)

[The Steamship Mutual Underwriting Association
Trustees \(Bermuda\) Limited](#)

Pissouri, Cyprus
14th May 2007

Appendix I – Policy Year Statement – All Classes

| | 2004/05 US\$ 000s | 2005/06 US\$ 000s | 2006/07 US\$ 000s | Total US\$ 000s |
|---|----------------------|----------------------|----------------------|--------------------|
| Open Policy Years – All Classes | | | | |
| Gross premiums | | | | |
| Earned premiums | 150,267 | 134,485 | 153,192 | 437,944 |
| Outstanding deferred premiums | (2) | 19,305 | | 19,303 |
| | 150,265 | 153,790 | 153,192 | 457,247 |
| Less: | | | | |
| Reinsurance premiums | (15,967) | (13,188) | (15,615) | (44,770) |
| Net premiums | 134,298 | 140,602 | 137,577 | 412,477 |
| Gross claims paid | | | | |
| Own claims and related expenses | (82,944) | (75,486) | (31,676) | (190,106) |
| Less: | | | | |
| Reinsurance recoveries | (763) | 1,704 | 62 | 1,003 |
| Net claims paid | (83,707) | (73,782) | (31,614) | (189,103) |
| Claims outstanding including IBNRs | (62,633) | (84,251) | (194,212) | (341,096) |
| Less: | | | | |
| Other reinsurance recoveries | 7,050 | 4,695 | 29,394 | 41,139 |
| Net provision for claims outstanding | (55,583) | (79,556) | (164,818) | (299,957) |
| Administration expenses | (1,198) | (3,337) | (3,062) | (7,597) |
| Balance on the technical account | (6,190) | (16,073) | (61,917) | (84,180) |
| Allocated investment income | 7,445 | 17,160 | 62,404 | 87,009 |
| Open policy years funds available | 1,255 | 1,087 | 487 | 2,829 |
| Closed Policy Years – All Classes | | | | |
| | | | | Total US\$ 000s |
| Available balance as at 20th February 2006 | | | | (255,387) |
| Add: | | | | |
| Balance of 2003/04 year as at 20th February 2006 | | | | 57,626 |
| Movements during financial year: | | | | |
| Other net premiums | | | | (1,796) |
| Net claims paid | | | | (46,101) |
| Available balance as at 20th February 2007 | | | | (245,658) |
| Claims outstanding including IBNRs | | | | |
| | | | | (211,611) |
| Less: | | | | |
| Reinsurance recoveries | | | | 34,136 |
| Net provision for claims outstanding | | | | (177,475) |
| Allocated investment income | | | | |
| | | | | 423,133 |
| Closed policy years funds available | | | | – |
| Summary | | | | |
| | | | | Total US\$ 000s |
| Open and closed years funds available | | | | 2,829 |
| Investment income available for allocation | | | | 75,091 |
| Reinsurance balance | | | | 278 |
| Total projected funds available | | | | 78,198 |

Appendix II – Policy Year Statement – P&I Class

| | 2004/05 US\$ 000s | 2005/06 US\$ 000s | 2006/07 US\$ 000s | Total US\$ 000s |
|---|----------------------|----------------------|----------------------|--------------------|
| Open Policy Years – P&I Class | | | | |
| Gross premiums | | | | |
| Earned premiums | 137,215 | 122,139 | 135,928 | 395,282 |
| Outstanding deferred premiums | (1) | 18,410 | | 18,409 |
| | 137,214 | 140,549 | 135,928 | 413,691 |
| Less: | | | | |
| Reinsurance premium | (12,589) | (10,494) | (11,524) | (34,607) |
| Net premiums | 124,625 | 130,055 | 124,404 | 379,084 |
| Gross claims paid | | | | |
| Own claims and related expenses | (75,993) | (69,941) | (28,977) | (174,911) |
| Less: | | | | |
| Reinsurance recoveries | (1,735) | 329 | 62 | (1,344) |
| Net claims paid | (77,728) | (69,612) | (28,915) | (176,255) |
| Claims outstanding including IBNRs | (56,979) | (77,407) | (181,209) | (315,595) |
| Less: | | | | |
| Other reinsurance recoveries | 4,573 | 3,349 | 29,203 | 37,125 |
| Net provision for claims outstanding | (52,406) | (74,058) | (152,006) | (278,470) |
| Administration expenses | (1,117) | (3,095) | (2,767) | (6,979) |
| Balance on the technical account | (6,626) | (16,710) | (59,284) | (82,620) |
| Allocated investment income | 6,626 | 16,710 | 59,284 | 82,620 |
| Open policy years funds available | – | – | – | – |
| Closed Policy Years – P&I Class | | | | |
| | | | | Total US\$ 000s |
| Available balance as at 20th February 2006 | | | | (240,701) |
| Add: | | | | |
| Balance of 2003/04 year as at 20th February 2006 | | | | 55,204 |
| Movements during financial year: | | | | |
| Other net premiums | | | | (1,579) |
| Net claims paid | | | | (44,557) |
| Available balance as at 20th February 2007 | | | | (231,633) |
| Claims outstanding including IBNRs | | | | |
| | | | | (202,541) |
| Less: | | | | |
| Other reinsurance recoveries | | | | 32,726 |
| Net provision for claims outstanding | | | | (169,815) |
| Allocated investment income | | | | |
| | | | | 401,448 |
| Closed policy years funds available | | | | – |
| Summary | | | | |
| | Total | FD&D | Others | P&I |
| Open and closed years funds available | 2,829 | 487 | 2,342 | – |
| Investment income available for allocation | 75,091 | | | |
| Reinsurance balance | 278 | | | |
| Total projected funds available | 78,198 | | | |

Income and Expenditure Account

for the year ended 20th February 2007

| | Note | 2007 US\$ 000s | 2006 US\$ 000s |
|---|------|-------------------|-------------------|
| Technical Account | | | |
| Earned premiums, net of reinsurance | | | |
| Gross call and premiums written | 3 | 154,007 | 158,223 |
| Outward reinsurance premiums | | (17,361) | 36,192 |
| a | | <u>136,646</u> | <u>194,415</u> |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| Gross amount | 4 | 183,044 | 147,721 |
| Reinsurers' share | | (34,254) | (9,288) |
| b | | <u>148,790</u> | <u>138,433</u> |
| Change in the provision for claims | | | |
| Gross amount | | 61,273 | 5,776 |
| Reinsurers' share | | (23,231) | 54,213 |
| c | 5 | <u>38,042</u> | <u>59,989</u> |
| b+c=d | | <u>186,832</u> | <u>198,422</u> |
| e | 6 | <u>591</u> | <u>626</u> |
| a-d-e | | <u>(50,777)</u> | <u>(4,633)</u> |
| Non-Technical Account | | | |
| Balance on the technical account for general business | | (50,777) | (4,633) |
| Investment income | 7 | 35,768 | 25,213 |
| Unrealised gains/(losses) on investments | 8 | 13,754 | (4,411) |
| Investment management expenses | | (2,471) | (2,710) |
| (Deficit)/surplus for the financial year | | <u>(3,726)</u> | <u>13,459</u> |

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

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

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

Balance Sheet

as at 20th February 2007

| | Note | 2007 US\$ 000s | 2006 US\$ 000s |
|---|------|-------------------|-------------------|
| Assets | | | |
| Investments | | | |
| Other financial investments | 9 | 583,740 | 480,933 |
| Reinsurers' share of technical provisions | | | |
| Claims outstanding | 5 | 75,274 | 52,043 |
| Debtors | | | |
| Debtors arising out of reinsurance operations | 11 | 30,193 | 94,032 |
| Prepayments and accrued income | | | |
| Accrued interest | | 3,767 | 2,063 |
| Total assets | | 692,974 | 629,071 |
| Liabilities | | | |
| Capital and reserves | | | |
| Free reserves | 12 | 78,198 | 81,924 |
| Technical provisions | | | |
| Claims outstanding | 5 | 552,707 | 491,434 |
| Creditors | | | |
| Creditors arising out of reinsurance operations | 13 | 28,760 | 25,957 |
| Other creditors | 14 | 33,309 | 29,756 |
| Total liabilities | | 692,974 | 629,071 |

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

These financial statements were approved by the Corporate Trustee on 14th May 2007.

[The Steamship Mutual Underwriting Association
Trustees \(Bermuda\) Limited](#)

Cash Flow Statement

for the year ended 20th February 2007

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-------|--|-------------------|
| | (Deficit)/surplus on ordinary activities before tax | |
| a | (3,726) | 13,459 |
| | 38,042 | 59,989 |
| | (13,754) | 4,411 |
| | 62,135 | (2,088) |
| | 6,356 | (18,591) |
| b | 92,779 | 43,721 |
| a+b=c | 89,053 | 57,180 |
| | Cash flow statement | |
| | 89,053 | 57,180 |
| | Cash flows were invested as follows: | |
| d | - | - |
| | 114,087 | 17,053 |
| | 45,470 | 4,785 |
| | (22,752) | (6,790) |
| | (55,023) | 55,023 |
| | 7,271 | (12,891) |
| e | 89,053 | 57,180 |
| d+e=f | 89,053 | 57,180 |
| | Movement in opening and closing portfolio investments net of financing | |
| d | - | - |
| e | 89,053 | 57,180 |
| d+e=f | 89,053 | 57,180 |
| g | 13,754 | (4,411) |
| f+g | 102,807 | 52,769 |
| | 480,933 | 428,164 |
| | 583,740 | 480,933 |

Notes on the Accounts

1. Constitution

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

2. Accounting policies

(a) Accounting convention

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

(b) Premiums written

Premiums comprise 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 premiums and recoveries

Reinsurance premiums 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) Investments

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

3. Gross calls and premiums written

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--|-------------------|-------------------|
| Premium receivable under reinsurance contracts | 192,411 | 157,687 |
| Movement in outstanding deferred premiums | (38,404) | 536 |
| | <u>154,007</u> | <u>158,223</u> |

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 2007.

4. Claims paid – gross amount

| | 2007 US\$ 000s | 2006 US\$ 000s |
|------------------------|-------------------|-------------------|
| Claims paid | 183,034 | 147,708 |
| Claims handling charge | 10 | 13 |
| | <u>183,044</u> | <u>147,721</u> |

A positive net run-off deviation of US\$ 8.9 million was experienced during the year (2006: US\$ 11.5 million).

Notes on the Accounts

5. Change in the net provision for claims

| | 2007 US\$ 000s | 2006 US\$ 000s |
|--|-------------------|-------------------|
| Gross outstanding claims | | |
| Provision brought forward | (491,434) | (485,658) |
| Provision carried forward | 552,707 | 491,434 |
| | <u>61,273</u> | <u>5,776</u> |
| Reinsurers' share | | |
| Provision brought forward | 52,043 | 106,256 |
| Provision carried forward | (75,274) | (52,043) |
| | <u>(23,231)</u> | <u>54,213</u> |
| Change in the net provision for claims | <u>38,042</u> | <u>59,989</u> |

6. Net operating expenses

| | 2007 US\$ 000s | 2006 US\$ 000s |
|---|-------------------|-------------------|
| Administrative expenses | | |
| Non investment management expenses payable to Corporate Trustee | 541 | 578 |
| Auditors' remuneration | 50 | 48 |
| | <u>591</u> | <u>626</u> |

7. Investment income

| | 2007 US\$ 000s | 2006 US\$ 000s |
|------------------------|-------------------|-------------------|
| Dividends and interest | 11,315 | 12,041 |
| Realised gains | | |
| Investments | 21,721 | 11,419 |
| Exchange | 2,732 | 1,753 |
| | <u>24,453</u> | <u>13,172</u> |
| | <u>35,768</u> | <u>25,213</u> |

8. Unrealised gains/(losses) on investments

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-------------|-------------------|-------------------|
| Investments | 8,462 | 7,412 |
| Exchange | 5,292 | (11,823) |
| | <u>13,754</u> | <u>(4,411)</u> |

Notes on the Accounts

9. Other financial investments

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-----------------------------------|-------------------|-------------------|
| Market value | | |
| Bonds and loans | 364,706 | 242,262 |
| Equities | 156,215 | 106,205 |
| Alternative investments | 32,575 | 54,525 |
| Money market instruments | – | 55,023 |
| Deposits with credit institutions | 93 | 4,289 |
| Cash accounts | 30,171 | 18,686 |
| Other | (20) | (57) |
| | 583,740 | 480,933 |
| Cost | | |
| Bonds and loans | 352,066 | 237,979 |
| Equities | 136,437 | 90,967 |
| Alternative investments | 31,460 | 54,212 |
| Money market instruments | – | 55,023 |
| Deposits with credit institutions | 93 | 4,289 |
| Cash accounts | 30,153 | 18,686 |
| | 550,209 | 461,156 |

10. Rates of exchange

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

| | 2007 | 2006 |
|--------------|-----------|---------|
| UK Sterling | £ 0.513 | 0.575 |
| Euro | € 0.761 | 0.839 |
| Japanese Yen | ¥ 119.680 | 118.460 |

11. Debtors arising out of reinsurance operations

| | 2007 US\$ 000s | 2006 US\$ 000s |
|---|-------------------|-------------------|
| The Steamship Mutual Underwriting Association (Reinsurance) Limited | 24,480 | 86,695 |
| Other reinsurance debtors | 5,713 | 7,337 |
| | 30,193 | 94,032 |

12. Free reserves

| | 2007 US\$ 000s | 2006 US\$ 000s |
|----------------------------------|-------------------|-------------------|
| Capital reserve | 33,827 | 33,827 |
| Accumulated fund brought forward | 48,097 | 34,638 |
| (Deficit)/surplus for year | (3,726) | 13,459 |
| | 78,198 | 81,924 |

13. Creditors arising out of reinsurance operations

| | 2007 US\$ 000s | 2006 US\$ 000s |
|---|-------------------|-------------------|
| The Steamship Mutual Underwriting Association (Reinsurance) Limited | 19,092 | 20,674 |
| Other reinsurance creditors | 9,668 | 5,283 |
| | 28,760 | 25,957 |

14. Other creditors

| | 2007 US\$ 000s | 2006 US\$ 000s |
|-----------------------------------|-------------------|-------------------|
| Unsettled investment transactions | 32,195 | 28,094 |
| Other creditors | 1,114 | 1,662 |
| | 33,309 | 29,756 |

Notes on the Accounts

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\$ 16.6 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 2007 this fee amounted to US\$ 2.965 million (2006: US\$ 3.197 million) of which US\$ 1.016 million (2006: US\$ 1.614 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 2007, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein. These financial statements have been prepared for the purpose of Member and policy holder information.

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

[Respective responsibilities of Trustees and Auditors](#)

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

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

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

[Basis of audit opinion](#)

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

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

[Opinion](#)

In our opinion

- the financial statements give a true and fair view in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through the United Kingdom Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 and generally accepted United Kingdom accounting principles applicable to insurers of the state of the Trust's affairs as at 20th February 2007 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Bermuda Companies Act 1981.

[Deloitte & Touche LLP](#)

Chartered Accountants and Registered Auditors
London

14th May 2007

