



# STEAMSHIP MUTUAL

Annual Report and Accounts 2011



Life at sea...

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# The Steamship Mutual Underwriting Association (Bermuda) Limited

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

## **Managers**

Steamship Mutual Management (Bermuda) Limited

Washington Mall 1, P.O. Box HM 447

Hamilton HM BX, Bermuda

Telephone: (1441) 295 4502

Telefax: (1441) 292 8787

## **Managers' representatives**

Steamship Insurance Management Services Limited

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Telephone: 020 7247 5490/020 7895 8490

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

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## **Representative office in Brazil**

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# Notice of Meeting

Notice is hereby given that the Thirty Seventh Annual General Meeting of the Members of the Association will be held at the Grand Hotel, Stockholm, Sweden, on Tuesday, 26th July 2011 at 09:05 hours for the following purposes:

- 1 The Secretary to confirm that Notice of the Meeting has been given.
- 2 To approve the Minutes of the last Meeting of the Members.
- 3 To receive the Directors' Report and Accounts for the year ended 20th February 2011.
- 4 To fix the number of Directors for the ensuing year.
- 5 To elect Directors retiring in rotation.

Under the Bye-laws of the Company, one-third of the Directors are required to retire annually by rotation. The Directors retiring by rotation are Mr A. Abraha, Mr C. J. Ahrenkiel, Mr S-M. Edey, Ms D. M. Ho, Mr C. J. Madinabeitia, Mr B. B. A. McAllister, Mr A. Pohan, Capt J-F. Wei and Mr A. Zacchello. Being eligible all Directors, with the exception of Capt. J-F. Wei, offer themselves for re-election.

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

By Order of the Board

**S. Davis**  
Secretary

10th May 2011

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

# Directors

## Directors

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

A. Pohan, New York Waterway  
K. Sheehan, Norwegian Cruise Line (appointed  
10th May 2011)  
B. K. Sheth, The Great Eastern Shipping Co. Ltd.  
R. Siddiqi, Pakistan National Shipping Corp.  
(appointed 26th October 2010/retired 10th May 2011)  
M. Sourì, National Iranian Tanker Co.  
(resigned 20th February 2011)  
A. Tung, Island Navigation Corp. International Ltd.  
M. Verde, Augustea Ship Management Srl.  
Wang, Y-G., China Shipowners Mutual Assurance  
Association  
Wei, J-F., China Ocean Shipping (Group) Co.  
A. Zacchello, Seearland Shipping Management BV.

## Secretary

S. Davis, Conyers, Dill & Pearman

## Managers

Steamship Mutual Management (Bermuda) Ltd.

## Registered office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## Administrative office

Washington Mall 1  
P.O. Box HM 447  
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Bermuda  
Telephone: (1441) 295 4502  
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# Report of the Directors

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

## Principal activities

The principal activities of the Association were the insurance and reinsurance of Protection and Indemnity (P&I) risks, and of Freight, Demurrage and Defence (FD&D) risks on behalf of Members. The total entered tonnage as at 20th February 2011 stood at approximately 91.9 million GT.

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

## Directors

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

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

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

Being eligible all Directors, with the exception of Capt. J-F. Wei, offer themselves for re-election.

## Audit Committee

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

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

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

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

## Free reserves

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

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

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

## Underwriting

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

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

The 2007/08 year was closed in May 2010.

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

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

## Free reserves

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

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

## Tonnage

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

The Association’s policy is to achieve diversity of vessel types and trades within its underwriting portfolio. Similarly, the Association seeks to keep a worldwide spread of owners. This policy of avoiding an over concentration in any one area minimises the adverse effects of market differences or economic difficulties in particular trades or regions. Analysis of gross tonnage by geographical area will be included within the Management Highlights to be published in June 2011.

## Pooling and reinsurance

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

## Pooling

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

# Report of the Directors

## continued

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

With effect from 20th February 2011, the liabilities of the Association under the Group Pooling Agreement for the top layer of the Pool (from US\$ 30 million to US\$ 50 million each event) and for the Group’s retention of 25% of the first US\$ 500 million layer of the General Excess Loss contract will continue to be reinsured into Hydra. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

### Excess Loss cover

The Group’s Excess of Loss programme was renewed with the same structure as for the expiring year, except for the change in the entry point to US\$ 60 million each event. Average premium ratings reduced, and were consolidated with expiring rates for Hydra. The Group continues to retain a 25% co-insurance of the first layer of the contract, from US\$ 60 million to US\$ 560 million each event.

The limit of the supplementary pooled cover for a restricted range of risks covered by the “Bio-Chem” exclusions in War Risk policies remains at US\$ 30 million, any one event each vessel, for the 2011/12 policy year.

### US oil pollution

The Group continues to levy special surcharges for vessels carrying persistent oil as cargo to the USA. The rates of surcharge for such voyages will reduce by 12.5% in 2011/12.

### Charterers’ cover

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

### The Steamship Mutual Trust

At the beginning of the financial year, the Association arranged, through its wholly-owned subsidiary, The Steamship Mutual Underwriting Association (Reinsurance) Limited, to extend the existing reinsurance contract with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited as Corporate Trustee of The Steamship Mutual Trust (“the Trust”), a duly authorised insurer under the Insurance Act 1978 of Bermuda, to cover all its retained liabilities in respect of the 2010/11 policy year, on existing terms and conditions. The Chairman of the Association is an ex-officio Director of the Corporate Trustee which administers the Trust. The beneficiaries under the Trust are the Members of the Association. These arrangements performed entirely satisfactorily during the year.

### Claims

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

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

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

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

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

The Managers have continued to work with Videotel Marine International in the production of DVD and computer based training materials to be used on-board ships. During 2010 production work was undertaken on programmes dealing with safety training on offshore vessels and super yachts, MARPOL Annex VI, vapour emission control, mooring operations, US vessel general permit requirements, dangerous and difficult bulk cargoes, ballast water management, and vessel watch-keeping and resource management. Further details of the Association's loss prevention activities will be included in the Management Highlights.

#### **Policy year statements**

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

#### **Investments**

The total level of cash and investments held by the Association reduced by 3.9% to US\$ 100.62 million. The total gain on financial investments was US\$ 1.58 million.

#### **Rules**

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

# Report of the Directors

## continued

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

#### **Rule No. 17 ii – Recovery**

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

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

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

#### **Rule No. 32 iv – Reinsurance**

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

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

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

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

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

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

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

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

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

#### **Rule No. 2 – Definitions**

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

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

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

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

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

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

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

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

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

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

#### The Steamship Mutual Underwriting Association Limited (“SMUA”)

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

#### Management Highlights

The Management Highlights will be published in June 2011.

#### Statement of Directors’ responsibilities

The Directors have prepared financial statements for each financial year in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and United Kingdom accounting principles applicable to insurers.

In preparing those financial statements the Directors are required to:

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

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

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

Vienna, Austria  
10th May 2011

## Appendix I – Policy Year Statement

### All Classes

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

### Closed Policy Years – All Classes

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

## Appendix II – Policy Year Statement

### P&I Class

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

### Closed Policy Years – P&I Class

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

### Summary

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

# Consolidated Income and Expenditure Account

for the year ended 20th February 2011

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

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

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

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

# Consolidated Balance Sheet

as at 20th February 2011

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

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

These financial statements were approved by the Board of Directors on 10th May 2011.

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

# Consolidated Cash Flow Statement

for the year ended 20th February 2011

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

# Notes on the Accounts

## 1. Accounting policies

### (a) Accounting convention

The consolidated accounts have been prepared in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and generally accepted United Kingdom accounting principles applicable to insurers. The Association has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 and amended in December 2006 by the Association of British Insurers ("ABI SORP").

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

### (b) Basis of consolidation

The Group accounts consolidate the accounts of The Steamship Mutual Underwriting Association (Bermuda) Limited and its subsidiary undertakings The Steamship Mutual Underwriting Association (Reinsurance) Limited, Steamship Mutual Property Holdings Limited and its share of Hydra Insurance Company Limited at 20th February 2011.

### (c) Calls and premiums written

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

### (d) Unearned premiums

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

### (e) Deferred acquisition costs

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

### (f) Claims and related expenses

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

### (g) Reinsurance premiums and recoveries

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

### (h) Land and buildings

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

### (i) Other financial investments

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

# Notes on the Accounts

## continued

### 1. Accounting policies continued

#### (j) Debtors

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

#### (k) Foreign currencies

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

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

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

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

#### (l) Allocation to policy years and classes

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

### 2. Gross premium

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

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

### 3. Reinsurance contracts

- (a) Under contracts dated 11th March 1983, the Association, through its subsidiary company, The Steamship Mutual Underwriting Association (Reinsurance) Limited (note 19), reinsured with The Steamship Mutual Underwriting Association Trustees (Bermuda) Limited all of its Protection and Indemnity risks and Freight, Demurrage and Defence risks for the period up to 20th February 1983 and subsequently further contracts for each of the policy years ended, respectively, 20th February 1984 through to 20th February 2011.
- (b) Under an agreement made on the 20th February 2003, the Association agreed to indemnify SMUA in respect of 95% of the first US\$ 30 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million for all policy years through to 2005/06; in respect of 90% of the first US\$ 30 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million for all policy years from 2006/07 through to 2008/09 and in respect of 90% of the first US\$ 50 million of SMUA's net underlying liabilities and 100% of any such liabilities which exceed US\$ 50 million for all subsequent policy years.

### 4. Claims paid – gross amount

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

## Notes on the Accounts continued

### 5. Change in net provision for claims

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

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

## 6. Net operating expenses

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

### Transactions with related parties

Steamship Mutual Management (Bermuda) Limited ("SMM(B)") provides management and administrative services to the Association. Under the terms of its management contract SMM(B) receives as remuneration for its services, a fee which is based in part on premiums payable by Members in each accounting year together with reimbursement of its office and administration expenses and those of its worldwide Representatives.

For the financial year to 20th February 2011 these fees and expenses amounted to US\$ 32.8 million (2010: US\$ 30.9 million) with US\$ 1.9 million prepaid at the year end (2010: US\$ 0.5 million). Since 21st February 2000 the Association has provided SMM(B) with an unsecured, indefinite long term loan amounting to US\$ 2,031,185. There were no other related parties transactions requiring disclosure under FRS 8.

## 7. Investment income

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

## Notes on the Accounts continued

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

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

### 9. Other income

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

### 10. Taxation

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

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

### 11. Land and buildings

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

## 12. Other financial investments

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

Unquoted investments of US\$ 151,637 (2010: US\$ 150,203) are carried in the accounts at their original euro cost less a provision for a permanent diminution in value.

## 13. Debtors arising out of direct insurance operations

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

## Notes on the Accounts continued

### 14. Debtors arising out of reinsurance operations

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

### 15. Other debtors

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

### 16. Free reserves

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

The balance carried forward, of US\$ 99,545,920 together with any additional premium to be ordered by the Board of Directors and recoveries under the reinsurance contracts, will be available to meet liabilities not yet passed or ascertained. The Members of the Association are liable for their rateable proportion of any deficiency arising from an excess of liabilities over premium. The Directors and Managers are of the opinion that the Association has adequate assets and contractual arrangements to meet known and anticipated liabilities.

### 17. Creditors arising out of reinsurance operations

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

## 18. Other creditors

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

## 19. Wholly-owned subsidiary companies

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

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

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

## 21. Security

During the course of the year to 20th February 1997, the Directors authorised the setting up of a trust to secure the payment of recoveries to US resident Members of the Association in accordance with the standard terms of the US National Association of Insurance Commissioners. As at the balance sheet date assets with a total value of US\$ 7.8 million had been allocated to the trust. For many years the Association has deposited funds with the Wells Fargo Bank, NA as trustee of the Trust Agreement dated 7th April 1966, between various members of the Group and the US Federal Maritime Commission in connection with the provision of evidence of financial responsibility under Sections 2 and 3 of US Public Law 89-777. As at the balance sheet date the funds deposited had a total value of US\$ 1.2 million.

# Report of the Independent Auditors

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

We have audited the financial statements of The Steamship Mutual Underwriting Association (Bermuda) Limited for the year ended 20th February 2011, which comprise the consolidated income and expenditure account, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein. These financial statements have been prepared for the purpose of Member and policy holder information.

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

## **Respective responsibilities of Directors and Auditors**

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and generally accepted United Kingdom accounting principles applicable to insurers.

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

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

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

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

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion

- the financial statements give a true and fair view in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and generally accepted United Kingdom accounting principles applicable to insurers of the state of the Company's affairs as at 20th February 2011 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the Bermuda Companies Act 1981; and
- the information given in the Directors' Report is consistent with the financial statements.

**Deloitte LLP**  
Chartered Accountants and Registered Auditors

London  
10th May 2011

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# The Steamship Mutual Underwriting Association Limited

## **Managers**

Steamship Insurance Management

Aquatical House, 39 Bell Lane

London E1 7LU

Telephone: 020 7247 5490/020 7895 8490

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

# Notice of Meeting

Notice is hereby given that the One Hundred and Second Annual General Meeting of the Members of the Company will be held at the Grand Hotel, Stockholm, Sweden, on Tuesday, 26th July 2011 at 09:10 hours for the following purposes:

- 1 To receive and if thought fit, to adopt the balance sheet and accounts for the year ended 20th February 2011, they having been recommended for adoption by the Board.
- 2 To elect Members of the Board.

The Members of the Board retiring by rotation and in accordance with Article 11.2 of the Association are Ms I. Grimaldi and Capt. J. W. Murray. Being eligible, they offer themselves for re-election.

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

By Order of the Board

**S. A. Ward**  
Secretary

10th May 2011

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

# Directors

## Directors

A. L. Marchisotto, Moran Holdings, Inc.

(Chairman appointed 25th January 2011)

C. J. Ahrenkiel, Ahrenkiel Consulting Services

I. Grimaldi, Grimaldi Holdings SpA.

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

J. W. Murray, Hapag-Lloyd

M. Souri, National Iranian Tanker Co.

(resigned 20th February 2011)

## Secretary

S. A. Ward, Steamship Insurance Management

## Managers

Steamship Insurance Management

## Registered office

Aquatical House

39 Bell Lane

London E1 7LU

Telephone: 020 7247 5490/020 7895 8490

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

## Registered number

105461

# Report of the Directors

Company registration number 105461

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

## Principal activities

The Association is a company limited by guarantee incorporated in the United Kingdom. The principal activities of the Association were the insurance and reinsurance of Protection and Indemnity risks (P&I), and of Freight, Demurrage and Defence (FD&D) risks on behalf of Members.

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

## Directors

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

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

## Free reserves

The balance on the technical account for general business showed a deficit of US\$ 0.47 million for the financial year. The overall deficit for the financial year of US\$ 0.80 million reflects the above technical deficit together with investment losses of US\$ 0.33 million. Free reserves decreased from US\$ 18.75 million to US\$ 17.95 million. The Association's exposure to liquidity or cash flow risk is minimal given that it holds all investments in cash and money market instruments. The Association does not engage in hedging or any other type of derivative activity.

## Underwriting

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

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

The 2007/08 year was closed in May 2010.

Gross premium written totalled US\$ 135.98 million compared to US\$ 99.33 million last year, a 36.9% increase, and the combined ratio, a key financial performance indicator, fell slightly from 104.6% to 102.3%. The significant increase in premium reflects the entry of the European Inland Short Sea Facility which transferred from SSM Bermuda on 20th February 2010.

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

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

## Tonnage

The level of entered tonnage rose during the year from 18.4 million to approximately 51.4 million gross tons, reflecting the entry of all European based business in the Association from 20th February 2011.

## Pooling and reinsurance

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

## Pooling

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

## Hydra Insurance Company Limited ("Hydra")

With effect from 20th February 2011, the liabilities of the Association under the Group Pooling Agreement for the top layer of the Pool (from US\$ 30 million to US\$ 50 million each event) and for the Group's retention of 25% of the first US\$ 500 million layer of the General Excess Loss contract will continue to be reinsured into Hydra. Hydra is a cell captive set up by the Group in Bermuda under the Segregated Account Companies Act 2000.

## **Pooling and reinsurance** continued

### **Excess Loss cover**

The Group's Excess of Loss programme was renewed with the same structure as for the expiring year, except for the change in the entry point to US\$ 60 million each event. Average premium ratings reduced, and were consolidated with expiring rates for Hydra. The Group continues to retain a 25% co-insurance of the first layer of the contract, from US\$ 60 million to US\$ 560 million each event.

The limit of the supplementary pooled cover for a restricted range of risks covered by the "Bio-Chem" exclusions in War Risk policies remains at US\$ 30 million, any one event each vessel, for the 2011/12 policy year.

### **US oil pollution**

The Group continues to levy special surcharges for vessels carrying persistent oil as cargo to the USA. The rates of surcharge for such voyages will reduce by 12.5% in 2011/12.

### **Charterers' cover**

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

## **The Steamship Mutual Underwriting Association (Bermuda) Limited ("SSM Bermuda")**

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

## **Policy year statements**

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

### **Rules**

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

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

#### **Rule No. 17 ii – Recovery**

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

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

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

#### **Rule No. 32 iv – Reinsurance**

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

# Report of the Directors

## continued

### Rules continued

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

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

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

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

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

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

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

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

#### Rule No. 2 – Definitions

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

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

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

### Rule No. 25 xiii – Cargo Liabilities

#### Proviso (v) – Ad Valorem Bills of Lading

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

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

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

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

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

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

### Principal risks and uncertainties

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

### **Statement of Directors' responsibilities**

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

In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control, for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Association's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

### **Disclosure of information to auditors**

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**A. L. Marchisotto**  
Chairman

**Managers**  
Steamship Insurance Management

Vienna, Austria  
10th May 2011

## Appendix I – Policy Year Statement

### All Classes

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

### Closed Policy Years – All Classes

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

## Appendix II – Policy Year Statement

### P&I Class

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

### Closed Policy Years – P&I Class

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

### Summary

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

# Income and Expenditure Account

for the year ended 20th February 2011

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

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

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

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

# Balance Sheet

as at 20th February 2011

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

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

These financial statements were approved by the Board of Directors on 10th May 2011.

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

# Cash Flow Statement

for the year ended 20th February 2011

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

# Notes on the Accounts

## 1. Accounting policies

### (a) Accounting convention

The accounts have been prepared in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom per Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and applicable United Kingdom accounting standards. The Association has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005, and amended in December 2006 by the Association of British Insurers ("ABI SORP").

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

### (b) Premium written

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

### (c) Unearned premium

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

### (d) Deferred acquisition costs

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

### (e) Claims and related expenses

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

### (f) Reinsurance premium and recoveries

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

### (g) Investments

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

### (h) Allocation to policy years and classes

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

## Notes on the Accounts continued

### 1. Accounting policies continued

#### (i) Foreign currencies

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

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

	2011	2010
Euro	€ 0.733	0.740
UK sterling	£ 0.617	0.649

### 2. Gross premium

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

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

### 3. Reinsurance contracts

The Association has the following reinsurance arrangement:

Under an agreement made on the 20th February 2003, SSM Bermuda agreed to indemnify the Association in respect of 95% of the first US\$ 30 million of the Association's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million in respect of all policy years through to 2005/06; in respect of 90% of the first US\$ 30 million of the Association's net underlying liabilities and 100% of any such liabilities which exceed US\$ 30 million for all policy years from 2006/07 through to 2008/09, and in respect of 90% of the first US\$ 50 million of the Association's net underlying liabilities and 100% of any such liabilities which exceed US\$ 50 million for all subsequent policy years.

### 4. Claims paid – gross amount

	2011 US\$ 000s	2010 US\$ 000s
Claims and related expenses	41,517	37,058
Claims administration expenses	2,376	1,811
	43,893	38,869

### 5. Net operating expenses

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

The Association had no employees in either financial year.

#### Transactions with related parties

Steamship Insurance Management ("SIM") provides management and administrative services to the Association. Under the terms of its management contract SIM receives, as remuneration for its services, a fee which is based in part on premiums payable by Members in each accounting year together with reimbursement of its office and administration expenses. For the financial year to 20th February 2011, these fees amounted to US\$ 5.459 million (2010: US\$ 3.200 million). US\$ 1.373 million was outstanding at the year end (2010: US\$ 965,957 prepaid).

## Notes on the Accounts continued

### 6. Taxation

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

#### Analysis of tax charge on ordinary activities

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

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

#### Factors affecting tax charge for the current period

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

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

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

### 7. Other financial investments

#### Market value

Money market instruments

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

#### Cost

Money market instruments

	17,805	20,304
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All investments are listed.

## 8. Debtors arising out of direct insurance operations

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

## 9. Free reserves

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

The balance carried forward of US\$ 17,954,124 together with any further additional premium to be ordered by the Board of Directors and recoveries under the reinsurance contracts, will be available to meet liabilities not yet passed or ascertained. The Members of the Association are liable for their rateable proportion of any deficiency arising from an excess of liabilities over premium. The Directors and Managers are of the opinion that the Association has adequate assets and contractual arrangements to meet known and anticipated liabilities.

# Report of the Independent Auditors

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

We have audited the financial statements of The Steamship Mutual Underwriting Association Limited for the year ended 20th February 2011, which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and Auditors**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

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

### **Opinion on other matters prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

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

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

London  
10th May 2011

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# The Steamship Mutual Trust

## Directors of the Corporate Trustee

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

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

### **Secretary of the Corporate Trustee**

A. R. Anderson, Conyers, Dill & Pearman

### **Manager of the Corporate Trustee**

Hamilton Investment Management Ltd.

### **Registered office of the Corporate Trustee**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **Administrative offices of the Corporate Trustee**

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

# Report of the Corporate Trustee

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

## Principal activities

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

## Accounts

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

## Policy year statements

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

## Investments

### Investment markets

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

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

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

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

### Investment performance and asset allocation

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

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

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

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

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

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

### **Claims**

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

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

### **Statement of Trustee's responsibilities**

The Corporate Trustee has prepared financial statements for each financial year in accordance with European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and United Kingdom accounting principles applicable to insurers.

In preparing those financial statements the Corporate Trustee is required to:

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

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

**H. S. Frank**  
Chairman

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

Vienna, Austria  
10th May 2011

## Appendix I – Policy Year Statement

### All Classes

	2010/11 US\$ 000s	2009/10 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
<b>Open Policy Years – All Classes</b>				
Gross premium	204,009	206,746	201,170	611,925
Less:				
Reinsurance premium	(24,955)	(24,276)	(23,980)	(73,211)
<b>Net premium</b>	179,054	182,470	177,190	538,714
Gross claims paid				
Own claims and related expenses	(28,850)	(65,717)	(96,440)	(191,007)
Less:				
Reinsurance recoveries	49	2,870	106	3,025
<b>Net claims paid</b>	(28,801)	(62,847)	(96,334)	(187,982)
Claims outstanding including IBNR	(174,589)	(107,447)	(71,250)	(353,286)
Less:				
Other reinsurance recoveries	10,938	10,460	3,589	24,987
<b>Net provision for claims outstanding</b>	(163,651)	(96,987)	(67,661)	(328,299)
Administration expenses	(84)	(80)	(81)	(245)
<b>Balance on the technical account</b>	(13,482)	22,556	13,114	22,188
Additional premium	–	–	39,006	39,006
Allocated net investment income	15,731	(1,356)	1,264	15,639
<b>Open policy years funds available</b>	2,249	21,200	53,384	76,833

### Closed Policy Years – All Classes

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

## Appendix II – Policy Year Statement

### P&I Class

	2010/11 US\$ 000s	2009/10 US\$ 000s	2008/09 US\$ 000s	Total US\$ 000s
<b>Open Policy Years – P&amp;I Class</b>				
Gross premium	172,490	177,387	173,391	523,268
Less:				
Reinsurance premium	(17,717)	(17,227)	(18,214)	(53,158)
<b>Net premium</b>	154,773	160,160	155,177	470,110
<b>Gross claims paid</b>				
Own claims and related expenses	(24,912)	(52,601)	(80,846)	(158,359)
Less:				
Reinsurance recoveries	–	–	106	106
<b>Net claims paid</b>	(24,912)	(52,601)	(80,740)	(158,253)
Claims outstanding including IBNRs	(145,834)	(97,305)	(64,032)	(307,171)
Less:				
Other reinsurance recoveries	8,054	8,744	3,201	19,999
<b>Net provision for claims outstanding</b>	(137,780)	(88,561)	(60,831)	(287,172)
Administration expenses	(73)	(71)	(71)	(215)
<b>Balance on the technical account</b>	(7,992)	18,927	13,535	24,470
Additional premium	–	–	39,006	39,006
Allocated net investment income	7,992	(1,492)	(1,672)	4,828
<b>Open policy years funds available</b>	–	17,435	50,869	68,304

### Closed Policy Years – P&I Class

Available balance as at 20th February 2010

Add:

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

Movements during financial year:

Other net premium

Net claims paid

Movement in allocated Trust investment income

Available balance as at 20th February 2011

Claims outstanding including IBNRs

Less:

Other reinsurance recoveries

Net provision for claims outstanding

Closed policy years funds available

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

### Summary

Open and closed years funds available  
Investment income available for allocation  
Reinsurance balance

Total projected funds available

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

# Income and Expenditure Account

for the year ended 20th February 2011

	Note	2011 US\$ 000s	2010 US\$ 000s
<b>Technical Account</b>			
Earned premium, net of reinsurance			
Gross premium written	3	209,013	203,230
Outward reinsurance premium		(25,788)	(22,818)
		183,225	180,412
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	156,425	189,038
Reinsurers' share		(11,942)	(40,001)
Net claims paid		144,483	149,037
Change in the provision for claims			
Gross amount		21,308	(25,369)
Reinsurers' share		6,815	40,486
Change in the net provision for claims	5	28,123	15,117
Claims incurred, net of reinsurance		172,606	164,154
Net operating expenses	6	84	80
<b>Balance on the technical account for general business</b>		10,535	16,178
<b>Non-Technical Account</b>			
Balance on the technical account for general business		10,535	16,178
Investment income	7	25,670	4,059
Unrealised gains on investments	8	5,962	33,861
Investment management expenses		(1,761)	(1,686)
<b>Surplus for the financial year</b>		40,406	52,412

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

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

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

# Balance Sheet

as at 20th February 2011

	Note	2011 US\$ 000s	2010 US\$ 000s
<b>Assets</b>			
Investments			
Other financial investments	9	698,617	591,342
Reinsurers' share of technical provisions			
Claims outstanding	5	54,935	61,750
Debtors			
Debtors arising out of reinsurance operations	11	8,910	45,969
Prepayments and accrued income			
Accrued interest		4,417	3,907
<b>Total assets</b>		<b>766,879</b>	<b>702,968</b>
<b>Liabilities</b>			
Capital and reserves			
Free reserves	12	185,807	145,401
Technical provisions			
Claims outstanding	5	547,453	526,145
Creditors			
Creditors arising out of reinsurance operations	13	29,434	24,236
Other creditors	14	4,185	7,186
<b>Total liabilities</b>		<b>766,879</b>	<b>702,968</b>

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

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

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

# Cash Flow Statement

for the year ended 20th February 2011

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

# Notes on the Accounts

## 1. Constitution

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

## 2. Accounting policies

### (a) Accounting convention

The accounts have been prepared in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and generally accepted United Kingdom accounting principles applicable to insurers. The Trust has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005, and amended in December 2006 by the Association of British Insurers ("ABI SORP").

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

### (b) Premium written

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

### (c) Claims and related expenses

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

### (d) Reinsurance premium and recoveries

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

### (e) Foreign currencies

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

### (f) Other financial investments

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

## Notes on the Accounts continued

### 3. Gross premium written

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

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

### 4. Claims paid – gross amount

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

### 5. Change in the net provision for claims

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

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

The estimates for known outstanding claims are based on the best estimates and judgement of the Managers of The Steamship Mutual Underwriting Association (Reinsurance) Limited of the final cost of individual cases based on current information. Full provision is also made for claims incurred but not reported by the balance sheet date using detailed statistical analysis having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

## 6. Net operating expenses

	2011 US\$ 000s	2010 US\$ 000s
<b>Administrative expenses</b>		
Non-investment management expenses payable to Corporate Trustee	32	30
Auditors' remuneration	52	50
	84	80

## 7. Investment income

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

## 8. Unrealised gains on investments

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

## Notes on the Accounts continued

### 9. Other financial investments

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

### 10. Rates of exchange

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

	2011	2010
UK sterling	£ 0.617	0.649
Euro	€ 0.733	0.740

### 11. Debtors arising out of reinsurance operations

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

## 12. Free reserves

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

## 13. Creditors arising out of reinsurance operations

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

## 14. Other creditors

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

## 15. Designated reserves

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

## 16. Taxation

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

## 17. Transactions with related parties

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

# Report of the Independent Auditors

## To the Corporate Trustee of The Steamship Mutual Trust

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

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

## Respective responsibilities of Trustees and Auditors

The Corporate Trustee is responsible for the preparation of the financial statements in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and generally accepted United Kingdom accounting principles applicable to insurers.

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

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

## Basis of audit opinion

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

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

## Opinion

In our opinion

- the financial statements give a true and fair view in accordance with the European Commission Insurance Accounts Directive (91/674/EEC) as adopted in the United Kingdom through Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and generally accepted United Kingdom accounting principles applicable to insurers of the state of the Trust's affairs as at 20th February 2011 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Bermuda Companies Act 1981.

## Deloitte LLP Chartered Accountants and Registered Auditors

London  
10th May 2011

# Notes

# Notes

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STEAMSHIP MUTUAL

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