ANNUAL REPORT AND ACCOUNTS 2008

THE STANDARD STEAMSHIP OWNERS' PROTECTION & INDEMNITY ASSOCIATION (BERMUDA) LIMITED

The Standard

SETTING THE STANDARD FOR SERVICE AND SECURITY.

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DIRECTORS

R Menendez Ross
President and Chairman
Ultrapetrol (Bahamas) Ltd

The Hon Sir John W Swan KBE, JP
Vice-President
Bermuda

RM Jones
Deputy Chairman
CSL International Inc

J de Sendagorta
Deputy Chairman
Maritima del Norte

N Aksoy
Turkish Cargo Lines

J Andrasick
Matson Navigation Company Inc

L D'Amato
Fratelli D'Amato International SpA

C D'Amico
D'Amico Societa di Navigazione SpA

TG Bernardino
Loadstar International Shipping Inc

A Bernini
Saipem SpA

F Blanchelande
SBM Production Contractors

NJ Chang
SK Shipping
(Appointed 29 January 2008
Resigned 16 May 2008)

R Clarke
British Columbia Ferry Services
(Appointed 12 October 2007)

P Clerici
Coeclerici SpA

T Dool
Algoma Central Corporation

EL Johnsen
Central Gulf Lines Inc

B Harinsuit
Harinsuit Transportation Co Ltd

HDW Laing
Bermuda
(Resigned 16 May 2008)

C Peraticos
Pleiades Shipping Agents SA

JB Rae-Smith
Swire Pacific Offshore Ltd

S Rangnekar
Shipping Corporation of India
(Resigned 12 October 2007)

J Reinhart
Maersk Line Ltd

SS Teo
Pacific International Lines (Pte) Ltd

WD Thomson
Bermuda

FCP Tsai
Oak Maritime (Canada) Inc

G Westgarth
Teekay Shipping (Canada) Ltd

AJ Groom
Manager

JSM Rowe
Manager

FINANCIAL HIGHLIGHTS 2008

COMBINED P&I AND DEFENCE CLASSES

	2008 US$m	2007 US$m
Results for the financial year ended 20 February 2008		
Calls and premiums net of reinsurance	**132**	120
Total claims net of reinsurance and operating expenses	**(152)**	(161)
Balance of technical account for general business	**(20)**	(41)
Net investment income	**29**	66
Excess of income over expenditure for the year	**9**	25
Outstanding claims liabilities		
Estimated known outstanding claims net of all recoveries	**284**	312
Incurred but not reported claims (IBNR)	**118**	114
Total estimated claims liabilities	**402**	426
Funds available for claims		
Open policy years	**189**	202
Closed policy years	**213**	224
Free reserves	**226**	217
Total balance sheet funds	**628**	643

I AM DELIGHTED AT THE SUPPORT SHOWN FOR THE CLUB BY ITS MEMBERS.

CHAIRMAN'S STATEMENT

I am pleased to report another good result in a difficult year. The free reserves grew to another record level, our entered tonnage is also at a record high, and the Club goes from strength to strength.

The free reserves provide the stability and resilience that the Club needs to weather adverse underwriting conditions, and it is pleasing to note that they have increased again, to $226m, at a time of both continued heavy claims and investment market uncertainty.

As all members know, this renewal was a tough one, with the Club, along with the rest of our industry, needing a substantial increase in premiums to reflect the increase in claims that we have seen in the last two years. I am delighted at the support shown for the Club by all of its members, and equally delighted that we were able to welcome a number of new members both during the year and at renewal.

We should not be surprised at the way claims have escalated. Claims are driven by a number of factors, but not least among them are the freight market and the level of commodity prices. With shipping activity, freight rates, and the prices of oil, steel, grain and other key commodities at their current high levels, it is only to be expected that claims for loss or damage to ships, their cargoes and port facilities are reaching record values.

The biggest impact of this is seen in Pool claims. Although the level of such claims in the year to 20 February 2008 did not quite reach that of the previous year, Pool claims continue to form a significant proportion of our claims costs. I highlighted last year the need to ensure that the Pooling mechanism works fairly. This Club continues to be a substantial net contributor to the Pool. While a club's Pool record can change swiftly with a few large casualties, this is not an excuse for complacency, and we are disappointed at the slow pace of progress within the International Group towards ensuring that the adjustment system works equitably. The Pool needs fostering and, particularly at a time when Pool costs are so high, it is dangerous to allow inequalities to persist.

This year has been marked by continued uncertainty in investment markets. While the diversification of investments has held the Club in good stead, short-term results have proved volatile.

During the year, as part of our examination of the Club's business risks, we carried out another asset allocation study to re-examine if the mix of asset classes in our benchmark is appropriate in the context of the Club's risk appetite, and the results confirmed that no change to the benchmark is necessary. Investment conditions remain very troubled; the outlook for returns in the new Club year is perhaps more uncertain than ever.

We are all only too aware of the ever-increasing range and extent of liabilities and regulatory requirements that land on shipowners' shoulders. This year will see the entry into force of the Bunkers Convention, which imposes on nearly all shipowners liability for pollution from bunkers and an obligation to have a certificate evidencing insurance cover. Despite the fact that some risks imposed by the convention are not covered, the clubs have decided that it is in shipowners' interests nonetheless to provide the certificates and to Pool the risks arising under them. I am pleased that the Group has demonstrated again that it can bring its collective financial resilience to bear to solve a problem for shipowners. In my view, this is what the Group should do – provide solutions that would not otherwise be possible. The Group would cease to fulfil this role at its peril.

Regulation within the EU continues to bring challenges. We are grappling with the possibility of unintended consequences. While on the one hand we have come to an understanding with the UK authorities that preserves the current efficient and pragmatic taxation regime, on the other, our current structure is at risk of being undermined by the localisation of asset rules under Solvency 2. We are monitoring the situation closely and making representations to try to ensure that this Club, and our industry generally, can continue to operate in its current efficient way. However, we must be open to re-examining our structure should this become necessary.

Sudhir Ragnekar and NJ Chang retired from the Board during the year and I would like to record my thanks for their contribution. This year has also seen the retirement from the Board of Henry Laing. Henry has served on the Board for 38 years and was a founder member of the Standard Bermuda Club Board in 1970. I would like to thank him for this remarkable achievement and for his kindness and service to the Club over this long period.

R Menendez Ross
Chairman

16 May 2008

REPORT OF THE DIRECTORS

BUSINESS REVIEW

Principal activities

The principal activities of the Club and its subsidiaries during the year were the insurance and reinsurance of marine protection and indemnity and related risks on behalf of the members. At 20 February 2008, there were approximately 73m gross tons of shipping entered in the Club, which were owned, operated or chartered by approximately 330 member groups.

Directors

The Directors of the Club are shown on page 2 of this Report. The Board was pleased to welcome Rob Clarke, who will retire at the Annual General Meeting in accordance with the Bye-Laws and offer himself for election. NJ Chang, who joined the Board during the year, also resigned during the year. Other Directors who retire by rotation in accordance with the Bye-Laws and who, being eligible, have offered themselves for re-election are Ricardo Menendez, John Swan, Javier de Sendagorta, Jim Andrasick, Tim Dool, Rod Jones, Graham Westgarth and Luigi D'Amato.

Henry Laing, the sole remaining founder member of the Board when the Club relocated to Bermuda in 1970, retired from the Board during the year.

Meetings of the Board

The Board met on four occasions during the year: in Bermuda in October 2007, in Paris in January 2008, in Miami in April 2008 and in Bermuda in May 2008. The Board reviewed the financial performance of the Club, significant claims, new members admitted to the Club, new ships attaching, reinsurance arrangements, regulatory and tax matters, industry developments, risk management issues, and investment strategy and results. The principal issues discussed by the Board, and the decisions reached, are set out below in this Report.

The Finance and Policy Committee, which reviews the financial affairs of the Club in more detail than the full Board can practically do, met in Bermuda on two occasions: in October 2007 and in May 2008. The Chairman and Deputy Chairmen have also held regular discussions with the Managers during the year.

Summary financial results

As set out in the income and expenditure account, income has exceeded expenditure by $9m (2007: $25m surplus). Total reserves available for claims stand at $628m, compared with $643m last year. Total estimated claims liabilities, including the provision for IBNR, net of reinsurance recoveries, amounted to $402m at the year end.

Income and expenditure account

Revenue from calls, premiums and releases amounted to $168.9m, compared with $152.4m in the previous year. Paid claims, net of reinsurance recoveries, amounted to $158.9m, compared with $122.3m in the previous year. Pool and reinsurance recoveries amounted to $22.2m, compared with $19.0m in the previous year.

Average Expense Ratio

The Average Expense Ratio for the Club's P&I business for the five years ended 20 February 2008 is 10.6%. The ratio has been calculated in accordance with the Schedule and Guidelines issued by the International Group and is consistent with the relevant Financial Statements. The ratio expresses the Club's expenses as a percentage of its total income. Although members' brokerage is not an expense of the Club, for the sake of consistency, the ratio includes members' brokerage fees paid by members to their brokers through the agency of the Club.

Balance sheet

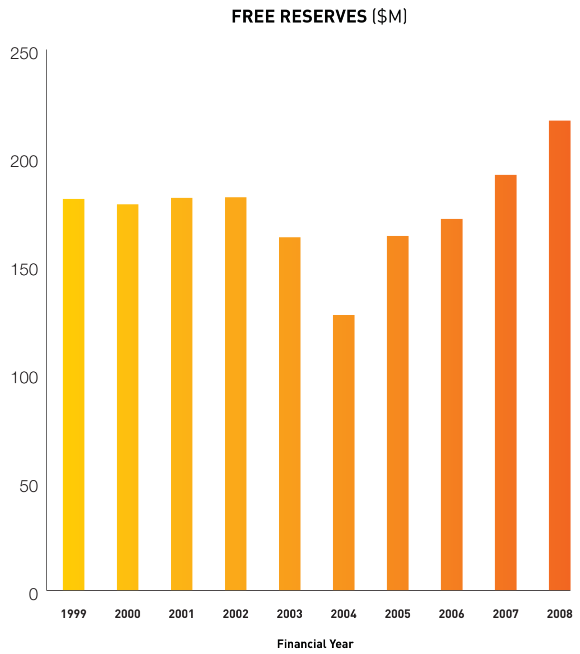
The amount available to meet outstanding claims and IBNR was $628m at 20 February 2008, compared with $643m last year.

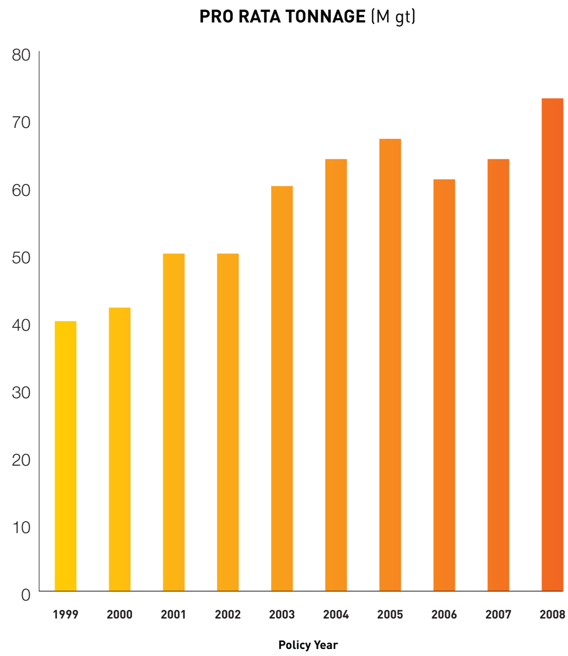
Appendices to the Report – P&I class

The appendices to the Report set out details of the open policy years together with the closed policy year balances. The Board closed the 2005/06 Policy Year at its meeting on 16 May 2008 on the basis of the financial position at 20 February 2008. The total open policy year balance at 20 February 2008 amounted to $184m after closure of the 2005/06 Policy Year. Estimated reinsurance recoveries of $28.8 have been incorporated in the figures to arrive at the projected surplus at the closure of each open policy year. The estimate of net outstanding claims liabilities for the closed years amounted to $209.4m (including liabilities for the 2005/06 Policy Year).

Free reserves

These represent the surpluses built up out of open and closed policy years and represent the core capital of the Club. The Club's free reserves increased from $217m to $226m at the year end, reflecting the surplus on the income and expenditure account for the year. It is the intention of the Board that the free reserves be available to be used for a number of purposes, including smoothing out the financial performance between policy years, absorbing deterioration beyond the IBNR allowed for in closed years and contributing towards catastrophe claims. The Board is mindful of the level of free reserves required to meet regulatory solvency requirements. The Board will keep the reserves at a level that it believes provides adequate cover for unexpected liabilities and comfortably satisfies the required level of solvency. The Board keeps under regular review the correct relationship between the Club's size and its reserves.





REPORT OF THE DIRECTORS

Principal risks and uncertainties

The principal risks arise from inaccurate pricing, fluctuations in the frequency and severity of claims compared with expectation, inadequate reserving and impairment of financial assets. The Club has developed a business model that enables it to assess the capital required to reflect the financial impact of the business risks. There are additional financial risks, which are set out below.

Financial risk management objectives

The Club is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and member liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from claims as they fall due. The most important components of this financial risk are interest rate risk, equity price risk, currency risk, credit risk and liquidity risk.

The Club manages these positions within an investment strategy that has been developed with the following objectives:

(i) to preserve capital for the payment of the Club's claims and other liabilities by limiting the risk in the portfolio as agreed from time to time by the Board.

(ii) within the risk tolerance agreed by the Board, to maximise the overall returns as measured over rolling three-year periods. The Club does not use hedge accounting.

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to members are exposed to interest rate risk.

The Club monitors interest rate risk by calculating the mean duration of the investment portfolio and of the members' liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

Equity price risk

The Club is exposed to equity price risk as a result of its holdings in equity investments. The equity portfolio is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the United States and other recognised stock exchanges (primarily in the UK, Europe and Asia). The Club has a defined investment policy, which sets limits on the Club's exposure to equities. The limits allow the Club to hold a significant proportion of its assets in equities. There is a risk that the Club could suffer a significant loss in the event of a downturn in the equity markets. Investment management meetings are held monthly. At these, senior managers meet to discuss performance and concentration.

Currency risk

The Club is exposed to currency risk in respect of claims liabilities denominated in currencies other than the US dollar. The most significant currencies to which the Club is exposed are sterling and the euro. The Club seeks to mitigate the risk by broadly matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

Credit risk

The risk is that a counterparty will be unable to pay amounts in full when due. Key areas where the Club is exposed to credit risk are:

- members
- reinsurers
- intermediaries
- bank and deposit takers
- counterparty risk with respect to derivative transactions

Member debts are low and the Club has a number of ways to ensure that premiums are paid in a timely manner. Reinsurance is used to manage insurance risk. This does not, however, discharge the Club's liability as primary insurer. If a reinsurer fails to pay a claim, the Club remains liable for the payment to the member. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The creditworthiness of banks and deposit takers is kept under review. In the case of deposits, they are spread across a number of institutions.

Liquidity risk

The risk that cash may not be available to pay obligations when due at a reasonable cost. The Club maintains sufficient liquid securities to pay reasonably foreseeable claims payments. The Club also reviews, on a regular basis, the time period required to liquidate the entire investment portfolio.

Future outlook

The Club's strong financial position means that it is well positioned to continue to offer the full range of P&I and related covers to its members.

Key performance indicators

The Board monitors the progress of the Club by reference to the following KPIs:

	2008	2007
Tonnage gt m	73	64
Gross premium $m	169	152
Free reserves $m	226	217
Claims cover*1	1.56	1.51
Solvency ratio %*2	288	230
Combined ratio %*3	115	134
Investment return %*4	8.6	12.5

*1. Ratio of net assets to outstanding claims

*2. Ratio of admissible reserves to the ICG

*3. The ratio of total expenditure to total income, as set out in the technical account/general business section of the Income and Expenditure account, representing the technical underwriting result

*4. Return for 12 months to end of February

REPORT OF THE DIRECTORS

OPERATIONAL REVIEW

Corporate governance

The Club comprises members from the international shipping community and seeks to follow good governance principles that would be generally recognised throughout world markets. The Club and its subsidiaries are regulated in the UK, Bermuda, Singapore and Australia as insurance operations, and the Club has had particular regard for the requirements of these countries in arriving at its current practices.

The principal functions of the Board are to govern and direct the Club's affairs, to set overall policy and decide upon general strategic direction, to set investment strategy, to oversee risk management and compliance issues, and to direct the Managers and consider their reports on all significant aspects of the Club's affairs.

The Board also ensures that there is a suitable allocation of responsibility between itself and the Managers, that there are suitable systems of control and that the Managers themselves have an appropriate structure for the management of the Club. The fees paid to the Directors are in line with those paid in other P&I clubs. Any change to the fees paid to Directors must be agreed by the Club's members at a general meeting. The fee paid to the Managers is determined annually following a detailed review by the Finance and Policy Committee and due consideration by the full Board, including a comparison of the cost with that in other clubs.

The Board reviews on a regular basis the major business risks facing the Club, their potential impact, and the systems in place to manage and mitigate those risks. It reviews internal audit reports, including audit plans and audit results, and notes any incidents in which systems have failed or procedures have not been followed, whether any actual loss was suffered or not. The Board does not have a formal audit committee, but that role is fulfilled by the Finance and Policy Committee, which reviews in detail the Club's financial statements, in conjunction with the Club's auditors, as well as any significant financial issues before their consideration by the full Board.

The Club's Managers have a code of business values in place to ensure that their work on behalf of the Club is carried out with integrity and fairness.

The Managers have procedures to prevent the Club being involved unwittingly in money laundering. They also have in place whistle-blowing procedures to ensure that members of their staff can raise matters of concern confidentially so that they may be appropriately investigated. The Managers also have full business continuity contingency plans, which they regularly test, to ensure that the Club can continue to operate in the event of a serious incident such as, for example, a terrorist event in London.

Environmental policy

The Board has reaffirmed its formal environmental policy, and the Managers, by whom all of the day-to-day work of the Club is carried out, and who are themselves part of a publicly listed group, have also implemented an environmental policy.

The Club is committed to the protection of the environment. To that end, it seeks to minimise the impact of its business on the environment and to develop the business in ways that are sustainable.

The Club requires its members to comply with all relevant environmental regulations, standards and laws, and supports them in developing and maintaining best practice in their operating procedures and practices in order to minimise the impact of their businesses on the environment.

The Club translates environmental policy into practical guidelines that assist implementation of responsible operating procedures amongst its membership. It regularly audits members' ships and management to monitor regulatory compliance, and to evaluate and encourage their implementation of good operating procedures. The Club encourages members to be 'best in class' and looks at initiatives to help them achieve this. It will not accept for entry or continue to insure members who consistently fail to comply with regulations or who fall below acceptable standards of responsible operation.

The Club conducts and supports research on the impact of its members' ships on the environment, and is proactive in promoting and communicating loss prevention initiatives designed to reduce that impact.

The day-to-day business of the Club is carried out by its Managers, who are committed to minimising the impact on the environment of their business operations and to achieving best practice in areas in which they do have an environmental impact. The Managers have taken steps to reduce their carbon footprint, and strive to minimise their energy consumption through their energy management policy and by encouraging staff to use energy thoughtfully. Where possible, the Managers use energy-efficient business appliances and computers, thereby giving rise to energy savings and a reduction in emissions. Electronic document management systems have been implemented to reduce paper usage. Where practicable, the Managers source their supplies from local businesses so as to minimise distribution and transport-related emissions. Suppliers are required, as far as possible, to have an appropriate environmental policy. In order to reduce travel-related emissions, the company has invested in video-conferencing facilities. As part of their environmental policy, the Managers have also implemented recycling programmes.

Ethical policy

The Club is committed to conducting its business affairs in a fair, proper and ethical manner, and in compliance with all applicable laws, regulations and professional standards. The Club's Managers have adopted a set of corporate values, which have been communicated to all staff.

Audit tender

The Board decided that in the interests of good governance, the audit should be put out to tender this year. Five firms were invited to participate. In the event, the Club's existing auditors, PricewaterhouseCoopers, were selected to remain as auditors for the current year. The Board is grateful to all of the firms for participating in the tender process and believes that it was a useful process, which will be repeated as appropriate in the future.

Market environment

The Board did not carry out a formal strategy review during the past year, although the shape and outlook of the marine insurance market, and the Club's position in it, are naturally kept under constant review. The Board believes that the Club can continue to operate successfully in its chosen field, and continues to provide a good and valued service to its members. Our Club aims to set the standard for service and security, and excels at providing cover for specialist trades and ships. While valuing the traditions of P&I insurance, which have stood the test of time well, the Club is always open to new ways of operating in the interests of the membership, and the Board will keep under review all options for the Club's future.

REPORT OF THE DIRECTORS

Financial position – policy years

The Club's financial strength has increased once again, despite this having been a very difficult year in the industry, both with a continued high level of claims costs and with turbulent investment markets. It is a sign of the Club's underlying resilience that this is the case.

The latest year, which we comment on in more detail below, was expensive and has caused a significant projected underwriting deficit. The two earlier open years (one of them now closed at the May 2008 Board meeting) have both developed slightly better than originally forecast. The closed years have performed well, with the claims reserves proving to have been more than adequate as the years have developed further. In the older years, the Club has some exposure to asbestosis-related claims and the Club has for many years held reserves specifically for such claims, both relating to individual claims and as a general fund to cover future notifications and deterioration. Further work has been done during the year on analysing these claims and on modelling future costs. The modelling continues to suggest that the reserves held are appropriate in the context of likely future liabilities. We report in more detail on the claims environment below.

Solvency and capital management

We ensure that sufficient assets are held to meet insurance solvency regulations (as specified by the Financial Services Authority) which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities.

We aim to maintain sufficient capital to comfortably meet all capital requirements. At 20 February 2008 the ratio of admissible (under FSA regulations) reserves to required capital stood at 288% (2007: 230%).

In addition, each regulated entity within the consolidated Club results have individually complied with all externally imposed capital requirements throughout the year.

The move to Solvency 2 by European regulators continues, with a target for implementation ultimately in 2012 and with all affected International Group clubs working with the regulators to try to produce a system that reflects reality, is robust and fit for the industry. All current indications suggest that the Club will comfortably meet any likely Solvency 2 capital requirements without the need for additional calls on members. However, the structure of the Club, with its Bermuda reinsurance subsidiary, which is similar if not identical to other clubs, does not sit easily alongside domestic European insurance companies with wholly Europe-based operations, which the revised regulation is principally targeting. P&I clubs regulated in the UK by the Financial Services Authority (FSA) are currently able to consolidate the assets of their non-European reinsurance subsidiaries for solvency purposes. Were the Club required to produce a stand-alone solvency submission, the treatment of its non-European reinsurance subsidiary could impose additional regulatory capital requirements. In addition, existing localisation of assets rules when combined with higher base capital requirements could result in less flexibility and, therefore, less efficiency in where the Club can invest, by requiring a much higher proportion of Club assets to be based in Europe. The rules will not themselves mean that the degree of solvency displayed by the Club is insufficient, but the current efficient structure of the Club may be prejudiced. Unless the draft rules are amended, there will likely be cost consequences for the Club, and consideration will need to be given to whether there are more efficient ways for it to carry on its business and/or better places from which to operate.

In the meantime, as stated above, the Club significantly exceeds current solvency requirements, both on the traditional regulatory formula basis, and on the basis of the Club's own risk-based ICA modelling. Last year, reserves were some three times the level required to withstand a one-in-200-year event, and that position has further improved this year.

Investments

The Club has produced another satisfactory investment performance, with the portfolio returning 8.6% for the 12 months to 29 February 2008, against a benchmark of 6.4%. The Defence Class investment portfolio returned 6.5%, against a benchmark of 5.7% for the same period. The returns are lower than the previous year, but have been generated in a very difficult investment climate.

The portfolio as at 28 February 2007 had an allocation of 36% in bonds, 34% equities, 22% in absolute return funds/hedge funds and 8% in cash. The position at the close of 29 February 2008 was 37% in bonds, 30% in equities, 19% in absolute return hedge funds and 14% in cash after some disinvestment during the year to meet claims settlements.

The largest contributor to performance over the last 12 months has been asset allocation, with the Managers reducing holdings in long-only equities progressively throughout the year to build cash reserves. At the end of the financial year, equities were more or less at the minimum level allowed in the portfolio under the investment rules that the Board has set.

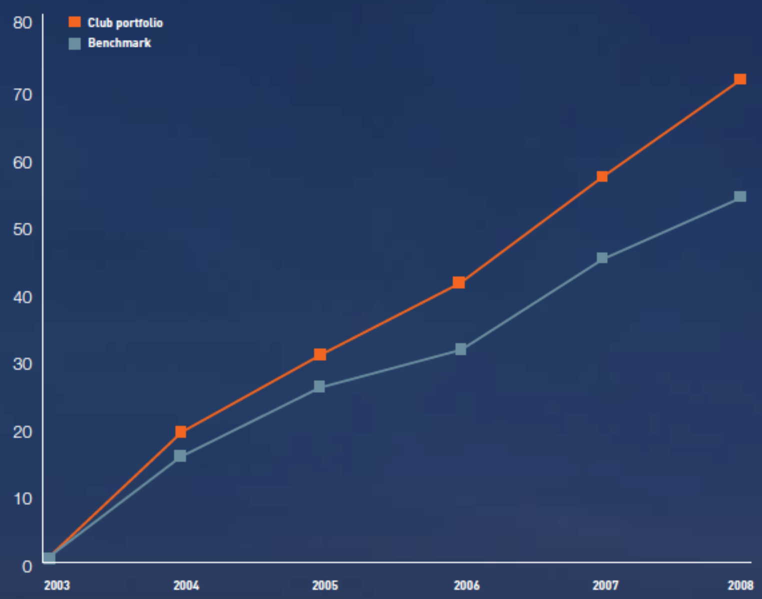
We reported in the last annual report that the outlook for 2007/08 was uncertain, particularly with the problems looming in the US housing and sub-prime mortgage markets. This uncertainty and the expectation that the sub-prime credit problems would take longer than expected to work through the equity markets were the reasons for the decision taken to reduce equities in favour of cash and bonds. The remaining equity portfolio is well diversified and the best contributors have been the holdings in Asia. The portfolio has 19% in absolute return/hedge funds, which have all been chosen for their low risk profile, and these have performed satisfactorily over the last 12 months.

The Managers took steps during the year to ensure that the Club's cash was not exposed to failures in money market mutual funds, into which traditionally cash is swept on a short-term basis. While these funds are expected to survive the market turmoil, a lack of transparency led the Managers to reduce reliance on them substantially and, instead, hold cash in deposits spread across a number of well-rated banks.

Immediately following the end of the financial year, the credit problems that had been developing over the last nine months caused severe dislocation of markets, owing to banks limiting their exposure to each other, resulting in reduced liquidity being available to borrowers. This, in turn, led banks to increase their margin calls on hedge funds, resulting in forced sales of equities and closures of funds.

The major banking authorities are pumping substantial extra liquidity into the market in an endeavour to ease the credit problems, but it remains to be seen whether this will be successful in stabilising overall markets. We are confident that the choice and spread of investments in the portfolio will mean that the portfolio is well placed to weather these difficult conditions.

5-YEAR CUMULATIVE INVESTMENT RETURN (%)



REPORT OF THE DIRECTORS

Asset allocation study

We undertook another asset allocation study this year. The study was designed to ensure that the ongoing strategic mix of assets in the investment portfolio is appropriate and reflects the degree of risk that the Club should take. The study examined the available asset classes and the mix of those classes, and included an assessment of relative volatilities and correlations. The result was that while a case can be made for a variety of asset mixes depending on risk appetite, including asset classes in which the Club does not currently invest, the existing benchmark and discretionary ranges remain appropriate.

The claims environment

Claims have continued at high levels, but the pattern was a little different from last year. The year started benignly, then entered an expensive phase, before slowing down in its last months. The net effect was a claims level similar to last year, again characterised by higher-value claims rather than a greater incidence of claims.

In the policy year to February 2008, we had 10 claims of between $0.5m and $1m, compared to only six the year before, and we had eight claims costing between $1m and $2m, compared to only three the year before. But that was counterbalanced by only five claims costing more than $2m, compared to 11 in the previous year. This year, we only had one Pool claim from our own members on our books at 20 February 2008, whereas the year before, we had five, albeit all quite modest ones.

Of the 23 claims exceeding $0.5m by the year end, seven were cargo claims, six were damage to docks and other structures, three were collision claims, but there was only one crew claim, plus six other various claims.

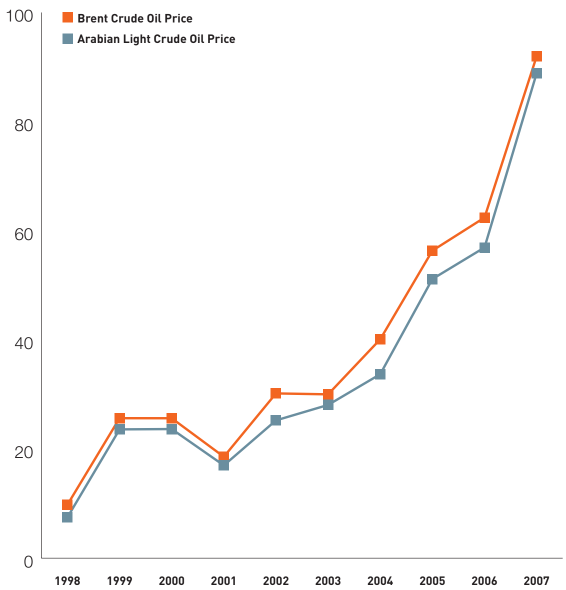
No one should be surprised at the increased value of claims experienced in the last couple of years. The level of claims is largely a function of the amount of shipping activity and the cost of putting things right when they go wrong. There is no doubt that shipping activity has remained exceptionally high by historical standards, regardless of extreme fluctuations in freight rates. And the cost of the things that count in relation to P&I claims has rocketed.

Crew claims are a function partly of medical costs and partly of crew wages. Every shipowner knows that officers' wages are increasing at a higher rate than ever – maybe by as much as 30% a year – and that, even so, finding good officers is almost an impossibly difficult task.

And the issue of officers also of course leads directly onto the incidence of claims. A huge amount of tonnage has entered the market and a huge amount more is set to do so in the next few years, but without sufficient officers of the right calibre and training, casualties are only going to continue to increase.

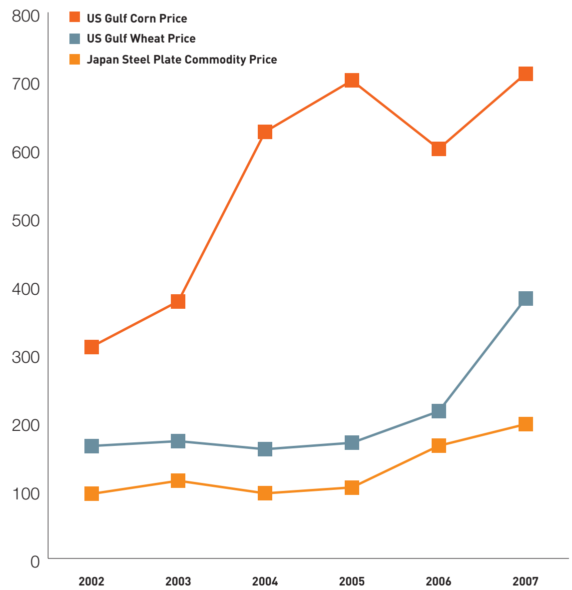
We asked rhetorically last year if the claims increase was a spike or a trend. We do not think that there is any doubt that it is a trend, and unless the drivers we have commented on above change radically, we are sure that the current level of claims is here to stay. The current economic woes will have an effect, and recession, much talked about, might lead to a change in these drivers; but the outlook is not, we think, for a significant reduction in either activity or commodity prices.

COMMODITY PRICES ($/BBL)



Source: Clarkson Research Services Limited 2008

COMMODITY PRICES ($/TONNE)



Source: Clarkson Research Services Limited 2008

REPORT OF THE DIRECTORS

Renewal 20 February 2008

Renewal this year was a tough one. The need to redress the underwriting imbalance, which had been exacerbated by very high Pool claims in 2006 and 2007, together with higher claims from our own members, was obvious and compelling. We set a 15% general increase, and achieved something close to this. We respect the fact that many members agreed premium rises higher than they had expected or budgeted, and we are grateful for their support. It was necessary to maintain underwriting discipline, and we hope that, in future years, rate adjustments can be more moderate, even if the underwriting gap has not yet been, we suspect, fully closed. We also retained virtually all members in the Club and attracted some new ones, and others added more tonnage, owned or chartered, to their entries in the Club. As a result, the Club's entered tonnage stood at a record high level following the renewal this year.

A major broker has recently taken issue with the approach of the clubs to the latest renewal. In particular, it queries why so much of members' premiums goes on funding elements of cover other than individual members' own claims, and suggests that the system should be more transparent. All we can say is that the current system, honed over many years, seems to be the fairest devisable to deliver paid-for cover of $3bn. Each layer of cover up to $3bn has to be paid for, and we can't see a fairer way of allocating cost than that which we currently use – and no one has actually suggested one. And as for transparency, we published in our Bulletin a few years ago the precise mechanics and formulae – no one is unaware, or needs to be, of how the sums are done.

Club retention

Each club continues to retain the first $7m of each claim before it enters the Pooling system. We support a gradual increase in the club retention, without any particular timescale, and will consider the matter on an annual basis. Although there are powerful arguments on both sides of the debate, we find more compelling the arguments that each club needs to live by the results of its own underwriting and that it is more appropriate for the Pool to be utilised only for relatively infrequent losses. This is more so given the very high incidence of Pool claims that we have seen in the last two years. We need to ensure that Pool claims do not become too big a percentage of the overall claims spend. With Pool claims at their current level, they are a very significant element of the overall claims cost.

The Pool

The last 12 months saw a continuation of the large Pool claims within the industry, which were a notable feature of the 2006/07 year. At the year end, the level of estimated Pool claims was not as high as at the same point for the record 2006/07 year, but it was the second most expensive year on record.

The Pool is designed to adjust so that each club pays its way in respect of its own claims in a relatively short timescale. However, and to repeat what we said last year, we support reviews to ensure that this is actually happening. The Standard has a substantial net 'credit balance' with the Pool. Of course, we accept that any club's net position can change quickly if it has a run of large claims, and we have to admit that there has been an element of good luck in our Pool record. But the Pool must be adjusted so that clubs feel that, even if they contribute more in any period than they collect, the balance will be restored quickly. Frankly, we are not impressed by arguments that it has to be ensured that changes do not introduce too much volatility; nor are we impressed by the speed at which this matter is being addressed. Clubs already cope with volatility in claims, and adjusting the Pooling formulae contributes little to this. It is more important that the system is fair.

Hydra

The high level of Pool claims in the last two years has caused some to question both the value and mechanics of the Group's captive insurer, Hydra. Therefore, it is worth recapitulating on Hydra's raison d'etre. Hydra was set up against a background of a very well-performing reinsurance contract for the Group's reinsurers and a realisation in the Group that it was in the long-term strategic interest of the world's shipowners, and within their collective financial capability, to retain more risk. The Pool limit has increased over the years, but it was thought that it would be sensible to place some structure round any increased risk retention, for two chief reasons. First, it was hoped that in the long term, risk retention would lead to reserves being built up, and a captive insurer was a good vehicle within which these reserves could be identified. It would mean that an identifiable 'pot' might develop to underpin the cost of the risks being retained. Second, greater risk retention means greater reliance on other clubs within the Pool. A Group captive was considered to be an efficient vehicle to use in order to identify and, in extreme cases, hold assets to secure clubs' pooling obligations.

The captive vehicle is a segregated account, or cell, captive set up under the specific Bermuda legislation governing such companies. The Hydra vehicle has been designed to achieve the two aims set out above, while leaving the assets of each club within its own Hydra cell under the control of the relevant club such that they can be consolidated into the club's own balance sheet. The only circumstance in which a club loses control of its Hydra cell assets is if a club goes into liquidation. An indication of the growth in the size of the Standard Club cell can be gained by looking at the cash investments in it. At 20 February 2008, these were \$17m (\$6m in 2007). Further growth is expected in the future.

It is important to note that Hydra is an entirely internal exercise. Each club beneficially owns its own cell, and each cell only reinsures its parent club. Other than for a share of outward commercial reinsurance premium and for management expenses, all Hydra transactions are between the parent club and its own cell, and no money moves out of a cell other than to its own parent club.

There is some suggestion that creating Hydra has in some way increased costs and exposure for shipowners. This is not the case. It is true that increased risk retention within the Pool has increased exposure for shipowners, but that decision was independent of the decision to create a captive to accommodate the accounting for that increased risk.

Any decision to increase the Club's retention is taken in the light of claims trends and each club's underwriting philosophy and appetite for risk, and a consensus view emerges each year as to whether an adjustment to the retention is warranted. Similarly, a view is taken by all clubs as to whether to adjust the Pool retention before risks are laid off into the commercial reinsurance market. This decision is taken on the basis of risk appetite and the perceived value for money of the reinsurance contract. It should be borne in mind that there had been considerable debate as to the value for money obtained from the contract in the last couple of decades, given the considerable profit made on the contract by the reinsurers. It was against this background that a decision was made to increase the Pool retention to \$50m. The creation of Hydra was simply an administrative, if important and valuable, part of those arrangements.

REPORT OF THE DIRECTORS

The International Group reinsurance programme

The Club's reinsurance programme has three aspects. The first is the Club's participation in the International Group's pooling and excess of loss reinsurance programme. This programme continues to be the single biggest contract placed in the marine market, and virtually all of the world's reinsurers that have an appetite for this class of insurance participate in one way or another.

There was no change to the structure of the programme this year, although there was an overall cost increase, the result of some claims activity in the reinsurance layer. Individual ship type rates were also adjusted, in line with risk exposure and historical claims performance. This is always a contentious area, with interest groups, and those that represent them, quite understandably lobbying before and commenting afterwards on the precise treatment. We can only say that, while it is always unpalatable for any shipowner to be landed with more cost, and the system can never be perfect, the Group does its very best to ensure fairness between different ship types.

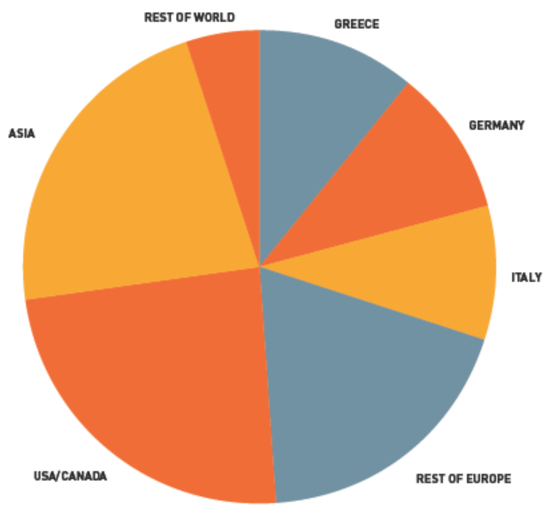
Non-pool reinsurance programme

The second aspect of the Club's reinsurance programme is for those claims that fall outside the Group's Pool and excess of loss contract. These non-poolable claims can arise on all ship types and in all trades because of the exclusions in the Group contract, and a large proportion of the Club's members benefit from the Club's non-poolable covers. The heaviest users of the non-pool programme are those involved in the offshore energy and specialist sectors, whose risks are largely excluded from the Pool. The Club's reinsurance programme is the market leader and provides limits of up to $1bn as well as great flexibility of cover. This year's renewal was completed on satisfactory terms, and we are grateful for the support shown by our brokers and our reinsurers. We believe that the partnership works well.

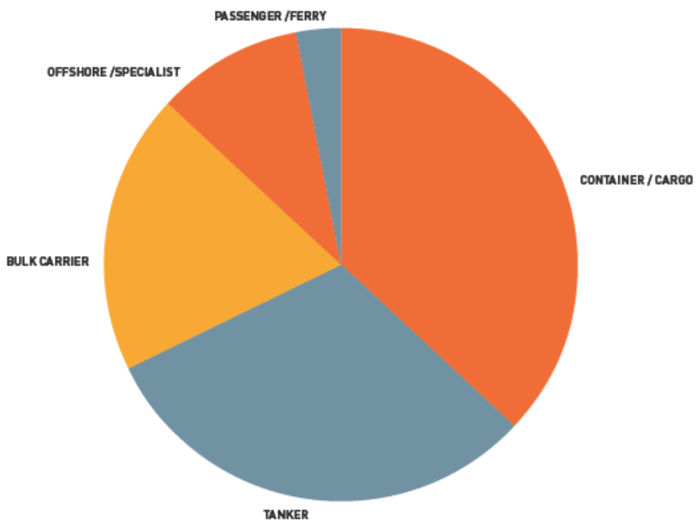
Retention reinsurance

The third aspect of the Club's reinsurance is in respect of claims within the Club's retention. Traditionally, the Club's philosophy has not been to rely on extensive reinsurance protection, preferring to rely principally on the Club's reserves to smooth out underwriting results. However, for a number of years, the Club has had some protection against the larger claims within its retention. This protection has been useful in the more volatile recent years. Our record on our retention reinsurance has not been good, and we have agreed at each of the recent renewals to improve the terms for the reinsurers. However, it is still not our approach to rely on reinsurance, and we need to keep under review the value and structure of the current programme.

CLUB MEMBERS BY REGION
(% OF GROSS TONNAGE)



SHIP TYPES ENTERED
(% OF GROSS TONNAGE)



Certification, Bunkers Convention and war and terrorism cover

The Group has been debating this year the extent to which it should become involved in providing primary war and terrorism liability cover. This debate has been engendered by the need to provide certification under the forthcoming entry into force of the Bunkers Convention and, in due course, the Wreck Removal Convention.

It has been agreed by all International Group clubs that they will be prepared to provide certificates required under the Bunkers Convention. The certificates required do not exclude terrorism, nuclear or biochem risks. Nonetheless, it has been recognised that the clubs are, probably, uniquely able to provide such certificates without the exclusions standard in the commercial insurance market. The clubs will therefore assume these risks under certificates, even though they do not insure them, as they are excluded risks, but will seek to recover any claims paid in respect of matters covered by standard war risks policies from the members and their war risks underwriters. The clubs accept that certain certificated risks will not be covered by war risks policies and that therefore there is a residual remote liability remaining with the clubs. The clubs have agreed to pool such risks.

This is a pragmatic solution to a practical problem, but not ideal, as it leaves clubs with an exposure that they are not technically underwriting, as well as a credit exposure in respect of risks covered under war risks policies. The clubs are continuing to discuss to what extent they should assume primary war and terrorism risks as part of club cover, and there are delicately balanced arguments. We hope to report next year that these discussions have reached a satisfactory conclusion that is helpful to shipowners.

Athens Convention

Despite the apparent urgency with which matters seemed to be proceeding this time last year, it now appears that the Athens Convention is unlikely to enter into force for at least two years. This therefore delays the need to find a solution to certification of convention liabilities. Members will recall that the clubs are able to provide the non-war/terrorism certificates that will be needed, but decided that they could not provide the certificates for war and terrorism risks. It has always been envisaged that a market solution to these will need to be found. Given the delayed entry into force of the convention, this matter has apparently not progressed much this year.

REPORT OF THE DIRECTORS

EU third maritime safety package

The International Group continues to monitor closely and comment as appropriate on EU maritime matters, in order to ensure that shipowners' interests are properly defended.

The third maritime package is made up of seven items: the Port State Control Directive, the Accident Investigation Directive, the Vessel Traffic Monitoring Directive, the Passenger Liability Regulation, the Class Directive, the Flag State Directive and the Civil Liability Directive (CLD).

The CLD is now on the agenda of the European Council for first reading discussion. The majority of Member States remain opposed to the CLD, but the European Commission and European Parliament are continuing to put pressure on the Council to make progress. The CLD cannot be adopted without the agreement of both the Council and the Parliament. The International Group's position is that there should be an acknowledgement that the CLD does not sit comfortably within what is otherwise a sound package of proposals (the third maritime package), and these other proposals should be pressed on with. At the Transport Council meeting on 7 April, only a few Member States (France, Spain, Ireland and Bulgaria) expressed almost unconditional support for the CLD. It is therefore likely that, despite the desire of the European Parliament and the Commission for all seven elements of the third maritime package to move together as a whole, the five directives mentioned below might move together leaving out the CLD and the Flag State directive for the time being. The fate of the CLD will depend largely on the French Presidency of the Council, which begins in the second half of 2008. France has made it clear that it will put both the CLD and Flag State Directive back on the Council agenda.

The Vessel Traffic Monitoring, the Port State Control, the Accident Investigation Directive and the Class Directive have all completed their first readings in the European Parliament and Council. They are likely to receive second readings shortly

The Passenger Liability Regulation has also completed its first reading in the European Parliament and Council. There remains some doubt whether Parliament did or did not agree to exclude the application of the Athens Convention to inland waterways from the scope of the Passenger Liability Regulation. The current text still applies the Athens Convention with extension to certain domestic carriage, has the advance payment provision and proposes that regulation should apply to inland waterways four years after entry into force. The main concern for the maritime industry is the Council's decision to remove the Commission's wording on the opt-out provision that provides that an EU Member State can only apply higher limits of liability than those contained in the 2002 Athens Protocol in the event of agreement from all 27 Member States. The Regulation is not expected to enter into force before late 2009 / early 2010.

As well as the third maritime package, there is also an EU review of Future Maritime Policy (also known as the Borg Green Paper). While this contains much about the future of the maritime industry in Europe, it does not contain a great deal of interest from a liability perspective and therefore the International Group is merely maintaining a watching brief.

In fact, during the past year, the Group has increased its focus on EU issues and has retained a lobbying firm to ensure that it is up to speed with legal and political developments generally; this is in addition to the representation that the Group has always had in relation to specific areas of interest.

Ship standards

The Club continues to prefer quality over quantity: a policy that has served us well for many years and which pre-dated many of the international initiatives that have contributed to an improvement in the quality of world shipping. We aim to attract shipowners to the Club whose standards of operation are complementary to those of existing members and to weed out those who, for whatever reason, fail to measure up.

The Club has an extensive survey programme, which aims to concentrate on higher-risk vessels whilst, at the same time, not overlooking any sector or member. At least 10% of ships on risk are surveyed each year, and over 50% of these surveys are carried out by the Managers' own staff, rather than by external surveyors. The surveys are intended to assist members with their own loss prevention programmes, and three-quarters of those carried out result in minor recommendations or, more seriously, requirements for repairs to be carried out. It is rare for exclusions or warranties to be imposed, but in some circumstances, these are necessary.

The Club is an active supporter of the International Group initiatives aimed at driving out poor-quality shipping and our condition survey programme is the principal tool in this. There has been some interest in whether any club has found it necessary to formally designate a ship as substandard and, thereby, invoke the new procedure introduced last year for a double-retention on Pool claims, but so far, no Club has found it necessary to impose this sanction.

Safety and loss prevention

As reported last year, all aspects of the Club's safety and loss programme have been reviewed to ensure that current industry issues are given appropriate attention and resources devoted accordingly. The Club's Safety and Loss Advisory Committee is a key contributor in this process, as it is composed of technical representatives from a broad spectrum of the Club's members. It meets three times a year to review the causes of the large claims that the Club has experienced, so that lessons can be learnt for the future. Safety initiatives are also discussed and an appropriate plan of action agreed, whether this be in the form of consultation with industry figures or organisations, regulators or equipment manufacturers. Topics currently under discussion include lifeboat design and safety drill procedures, pre-employment medical screening of crew for pre-existing diseases, safe anchoring procedures, and how to promote better professional standards amongst harbour pilots.

The Club produces a number of publications devoted to safety and loss prevention. These are designed to disseminate safety advice and information. An in-depth publication was produced this year dealing with oil waste management on board ships, which has been a major area of concern to government regulators in recent years, with multi-million dollar fines imposed for illegal discharges at sea of bilge waste and engine sludge. Member seminars were also conducted on this subject, and more are planned.

REPORT OF THE DIRECTORS

Standard Offshore

The Club has continued to develop both its offshore expertise and grow its offshore portfolio, which includes four offshore members who sit on the Board. The Managers' reorganisation, which we reported last year, included setting up a dedicated offshore syndicate, which has paid dividends during the past year, and the Club's expertise in this area is now well recognised. The Club's membership in this sector continues to increase with new offshore accounts and organic growth in the existing membership in all sectors of the industry and around the world. The Club has continued to organise Offshore Forums, and to provide speakers at industry seminars, both of which have helped to raise the Club's profile and have contributed to the successful promotion of the Standard Offshore brand.

This year, the Club has revised its core wording for floating drilling and production units, the Standard Offshore Conditions, to better reflect the cover given by the Club. The amendments, which are intended to avoid confusion and clarify some areas of potential overlap with other insurances, have been welcomed by members. The Club has also been invited by BIMCO to provide representatives to sit on three of the subcommittees that are revising standard forms widely used in the offshore industry, including Heavycon and Bargehire. The Club continues to audit members' contracts, and aims to advise members of the effect of the contractual arrangements that they have concluded in terms of their cover so that a level of comfort can be provided before potential liabilities arise. Underwriting is carried out as a separate discipline so that members' exposure can be properly considered and any appropriate additional covers can be arranged. The Club has also continued to refine its risk analysis processes, including the provision of a dedicated surveyor to the offshore business. At a time when many new companies are entering the offshore industry and there is continued pressure on units and crews, we regard these as prudent moves that will enable us to continue to underwrite selectively so as to maintain the quality of our offshore book of business.

Standard Asia

Standard Asia continues to be a great success and the Club's Asian business has increased again this year. There has been a big increase in offshore energy business in Singapore, and the Club specialises in this class of business and is well placed to benefit from this activity. We are delighted at the support that Standard Asia has received, not just from shipowner members and their brokers, but also from the Singaporean authorities, who have been at pains to ensure that all aspects of their maritime industry are encouraged and assisted. Imitation is the sincerest form of flattery, and a number of other clubs have recently opened offices in Singapore or have signalled an intention to do so. The Club's management team in Singapore is well respected for the breadth of its talent and provides the full range of P&I management services to members in the Asia-Pacific region.

Tokio Marine and Nichido Fire

Our joint venture with Tokio Marine goes from strength to strength. We have added more tonnage to the Club at each renewal since the joint venture began in 2001, and we value the members who have joined the Club through this arrangement. We are pleased to report that further tonnage was entered in the Club at the latest renewal. Choice is important in a competitive world and this arrangement provides just that.

Revised rules

Over recent years, the Managers have come to the view, shared by a number of members, that the wording of the Club's rules has become excessively long and complicated. The wording of some of the rules is obscure, old-fashioned and verbose. This has been caused by the many changes and additions that have occurred over the years.

The Managers have therefore completed a major overhaul of the rules with the aim of making them shorter and clearer. The intention has not been to alter the extent of cover given, merely the way in which it is expressed. As a result of the proposed changes the P&I rules have been reduced from 32,000 to 18,875 words, and the Defence rules from 13,500 to 795 words.

The new Rules will be proposed at a Special General Meeting of the members in October 2008 and, if agreed, will come into force for the 2009/10 policy year.

IT

We reported last year that the Managers had introduced a new IT system to handle the Club's business, although at the time of writing last year's report the system was relatively unproven. The introduction of the new system was achieved on time and on budget and caused no significant disruptions during its initial implementation, which in itself is a major achievement given the scope for failure in complex systems. This year, having completed two renewals and a full P&I annual cycle, the system has proved itself to be a robust business tool which is helping to enhance the delivery of service to members across the range of the Club's activities.

The technology used for its construction delivers a number of benefits which we believe will provide the Club with a sustained competitive edge for many years to come. In particular its scaleability and adaptability will allow the Club to be able to respond to future developments. As a web-based system, it is available for use anywhere and all the Club's functions can be performed effectively from any of its current or future offices. All communication, document production and filing is now fully electronic which delivers improved efficiency, flexibility and reliability. Much of this work so far has been done behind the scenes, but this year it is planned to give Members and their brokers greater direct access to the Club's data via the web. At the same time, the Club's website is itself being updated to provide an informative and easy to navigate portal for members to access the Club's range of information and services.

Member service

The Club is committed to providing a first class service. The Managers try to do this, but also recognise that the best way to know if they are actually delivering what members want is to ask them. To this end, the Club is currently undertaking a survey of service quality in order to identify members' perceptions of what the Club does well and what it could do better. We expect this to be complete by the end of the summer, and the Managers will report to all members on the survey's findings.

REPORT OF THE DIRECTORS

DIRECTORS' RESPONSIBILITIES

The Directors are required to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Association and of the income and expenditure for that period. In fulfilling their responsibility for those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year;
- 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 confirm that they have complied with the above requirements in preparing the financial statements.

The financial statements are published on the Association's website. The Directors are responsible for the maintenance and integrity of the website. Visitors to the website need to be aware that legislation in Bermuda concerning the preparation and dissemination of financial statements may be different from that of other jurisdictions. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Association. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Association, and to prevent and detect fraud and other irregularities.

Statement of Disclosure of Information to Auditors

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

1) so far as each of them is aware, there is no information relevant to the audit of the Club's financial statements for the year ended 20 February 2008 of which the auditors are unaware; and
2) each Director has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make him/herself aware of any relevant audit information and to establish that the Club's auditors are aware of that information.

Auditors

PricewaterhouseCoopers has expressed their willingness to continue in office as auditors and, accordingly, a resolution to confirm their appointment will be submitted at the Annual General Meeting.

By order of the Board

Charles Taylor & Co (Bermuda)
Secretary

16 May 2008

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INDEPENDENT AUDITORS' REPORT

Independent Auditors' report to the members of the Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Limited
We have audited the financial statements of Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Limited for the year ended 20 February 2008 which comprise the consolidated income and expenditure account, the consolidated balance sheet, the parent company balance sheet, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the financial statements. In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Chairman's Statement and Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the Association's affairs as at 20 February 2008 and of the group's excess of income over expenditure and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors

London
16 May 2008

FINANCIAL STATEMENTS

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

for the year ended 20 February 2008

	Notes	Total 2008 US$000	Total 2007 US$000	Class 1 – P&I 2008 US$000	Class 1 – P&I 2007 US$000	Class 2 – Defence 2008 US$000	Class 2 – Defence 2007 US$000
Technical account – general business							
Income							
Gross premiums written including calls	3	**168,869**	152,350	**162,745**	147,441	**6,124**	4,909
Outward reinsurance premiums	4	**(36,461)**	(32,040)	**(36,028)**	(31,174)	**(433)**	(866)
Earned calls, net of reinsurance		**132,408**	120,310	**126,717**	116,267	**5,691**	4,043
Total income		**132,408**	120,310	**126,717**	116,267	**5,691**	4,043
Expenditure							
Claims paid	6	**181,095**	141,300	**175,964**	137,629	**5,131**	3,671
Reinsurers' share	7	**(22,207)**	(19,045)	**(21,280)**	(18,821)	**(927)**	(224)
Net claims paid		**158,888**	122,255	**154,684**	118,808	**4,204**	3,447
Change in provision for claims		**(14,322)**	24,036	**(10,726)**	25,973	**(3,596)**	(1,937)
Reinsurers' share		**(9,944)**	(757)	**(10,071)**	(3,675)	**127**	2,918
Change in net provision for claims		**(24,266)**	23,279	**(20,797)**	22,298	**(3,469)**	981
Claims incurred, net of reinsurance		**134,622**	145,534	**133,887**	141,106	**735**	4,428
Net operating expenses	8	**17,842**	15,399	**17,491**	15,080	**351**	319
Total expenditure		**152,464**	160,933	**151,378**	156,186	**1,086**	4,747
Balance on the technical account for general business		**(20,056)**	(40,623)	**(24,661)**	(39,919)	**4,605**	(704)
Non-technical account							
Balance on the technical account for general business		**(20,056)**	(40,623)	**(24,661)**	(39,919)	**4,605**	(704)
Investment income	5	**76,330**	29,405	**74,209**	28,413	**2,121**	992
Investment expenses and charges							
Investment management expenses	5	**(4,170)**	(3,687)	**(4,145)**	(3,672)	**(25)**	(15)
Losses on realisation of investments	5	**(4,624)**	(6,425)	**(4,624)**	(6,045)	**–**	(380)
Unrealised (losses)/gains on investments	5	**(43,521)**	42,614	**(41,874)**	39,775	**(1,647)**	2,839
Exchange gains		**6,195**	5,827	**5,804**	5,724	**391**	103
Excess of income over expenditure before tax		**10,154**	27,111	**4,709**	24,276	**5,445**	2,835
Tax charge	9	**(1,478)**	(1,476)	**(1,430)**	(1,378)	**(48)**	(98)
Excess of income over expenditure after tax		**8,676**	25,635	**3,279**	22,898	**5,397**	2,737
Minority interest		**51**	(517)	**51**	(517)	**–**	–
Excess of income over expenditure for the financial year transferred to contingency reserve		**8,727**	25,118	**3,330**	22,381	**5,397**	2,737

There are no recognised gains or losses other than those included in the income and expenditure account.
The income, expenditure and results for the year are wholly derived from continuing activities.

The notes on pages 32 to 43 form part of the accounts.

CONSOLIDATED BALANCE SHEET at 20 February 2008

	Notes	Total		Class 1 – P&I		Class 2 – Defence	
		2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Assets							
Investments							
Other financial investments	12	**471,111**	522,821	**444,641**	496,707	**26,470**	26,114
Reinsurers' share of technical provisions							
Claims outstanding	11	**80,608**	70,664	**78,803**	68,732	**1,805**	1,932
Debtors							
Debtors arising out of direct insurance operations	16	**42,688**	39,026	**41,658**	38,335	**1,030**	691
Other debtors		**80,501**	67,381	**80,490**	67,375	**11**	6
		123,189	106,407	**122,148**	105,710	**1,041**	697
Other assets							
Tangible assets	14	**6,075**	6,797	**6,075**	6,797	–	–
Cash at bank and in hand		**115,226**	81,750	**111,361**	77,949	**3,865**	3,801
Prepayments and accrued income		**18,620**	15,552	**18,225**	15,181	**395**	371
		139,921	104,099	**135,661**	99,927	**4,260**	4,172
Total assets		**814,829**	803,991	**781,253**	771,076	**33,576**	32,915
Liabilities							
Reserves							
Statutory reserve		**240**	240	**240**	240	–	–
Contingency reserve	17	**225,882**	217,155	**205,459**	202,129	**20,423**	15,026
		226,122	217,395	**205,699**	202,369	**20,423**	15,026
Minority interest		**2,668**	3,019	**2,668**	3,019	–	–
Technical provisions							
Gross claims outstanding	11	**482,708**	497,030	**471,828**	482,554	**10,880**	14,476
Creditors							
Creditors arising out of direct insurance operations		**14,384**	15,503	**13,794**	14,807	**590**	696
Other creditors including taxation		**88,089**	69,517	**88,010**	69,434	**79**	83
		102,473	85,020	**101,804**	84,241	**669**	779
Accruals		**430**	357	**419**	345	**11**	12
Deferred tax	10	**428**	1,170	**356**	1,062	**72**	108
Current account between classes		–	–	**(1,521)**	(2,514)	**1,521**	2,514
		103,331	86,547	**101,058**	83,134	**2,273**	3,413
Total liabilities		**814,829**	803,991	**781,253**	771,076	**33,576**	32,915

R Menendez Ross *Director*
16 May 2008

The notes on pages 32 to 43 form part of the accounts.

FINANCIAL STATEMENTS

BALANCE SHEET at 20 February 2008

	Notes	Total 2008 US$000	Total 2007 US$000	Class 1 – P&I 2008 US$000	Class 1 – P&I 2007 US$000	Class 2 – Defence 2008 US$000	Class 2 – Defence 2007 US$000
Assets							
Investments							
Investments in group undertakings and participating interests	15	**8,650**	5,485	**8,650**	5,485	**–**	–
Other financial investments	12	**22,890**	26,471	**20,660**	24,336	**2,230**	2,135
		31,540	31,956	**29,310**	29,821	**2,230**	2,135
Reinsurers' share of technical provisions							
Claims outstanding	11	**328,511**	349,849	**321,549**	339,017	**6,962**	10,832
Debtors							
Debtors arising out of direct insurance operations	16	**22,583**	26,683	**22,162**	26,071	**421**	612
Amounts due from group undertakings		**5,287**	8,729	**5,175**	8,620	**112**	109
Other debtors		**37,637**	60,758	**37,637**	60,757	**–**	1
		65,507	96,170	**64,974**	95,448	**533**	722
Other assets							
Tangible assets	14	**6,075**	6,797	**6,075**	6,797	**–**	–
Cash at bank and in hand		**28,840**	22,106	**27,931**	20,744	**909**	1,362
Prepayments and accrued income		**19,331**	13,463	**19,299**	13,343	**32**	120
		54,246	42,366	**53,305**	40,884	**941**	1,482
Total assets		**479,804**	520,341	**469,138**	505,170	**10,666**	15,171
Liabilities							
Reserves							
Statutory reserve		**240**	240	**240**	240	**–**	–
Contingency reserve	17	**43,288**	48,839	**42,281**	48,438	**1,007**	401
		43,528	49,079	**42,521**	48,678	**1,007**	401
Technical provisions							
Gross claims outstanding	11	**360,939**	386,563	**353,401**	374,697	**7,538**	11,866
Creditors							
Creditors arising out of direct insurance operations		**3,582**	8,815	**3,636**	8,322	**(54)**	493
Other creditors including taxation		**38,587**	59,224	**38,587**	59,163	**–**	61
Amounts due to group undertakings		**32,562**	15,439	**30,428**	13,094	**2,134**	2,345
Deferred tax		**337**	984	**302**	984	**35**	–
Accruals		**269**	237	**263**	232	**6**	5
		75,337	84,699	**73,216**	81,795	**2,121**	2,904
Total liabilities		**479,804**	520,341	**469,138**	505,170	**10,666**	15,171

R Menendez Ross *Director*
16 May 2008

The notes on pages 32 to 43 form part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT for the year ended 20 February 2008

	Notes	Total 2008 US$000	Total 2007 US$000	Class 1 – P&I 2008 US$000	Class 1 – P&I 2007 US$000	Class 2 – Defence 2008 US$000	Class 2 – Defence 2007 US$000
Operating activities							
Calls and premiums received		**164,617**	159,534	**158,576**	154,096	**6,041**	5,438
Reinsurance premiums paid		**(37,008)**	(32,587)	**(36,575)**	(31,721)	**(433)**	(866)
Investment income received		**71,916**	15,918	**69,876**	14,974	**2,040**	944
		199,525	142,865	**191,877**	137,349	**7,648**	5,516
Claims paid		**(181,095)**	(141,300)	**(175,964)**	(137,629)	**(5,131)**	(3,671)
Reinsurance receipts in respect of claims		**22,207**	19,045	**21,280**	18,821	**927**	224
General expenses		**(17,787)**	(25,156)	**(17,435)**	(24,844)	**(352)**	(312)
Other operating movements		**(64,110)**	22,174	**(61,868)**	22,764	**(2,242)**	(590)
		(240,785)	(125,237)	**(233,987)**	(120,888)	**(6,798)**	(4,349)
Net cash flow from operating activities	18	**(41,260)**	17,628	**(42,110)**	16,461	**850**	1,167
Taxation							
United Kingdom Corporation Tax paid		**(1,086)**	(504)	**(1,035)**	(463)	**(51)**	(41)
Net (outflow)/inflow		**(42,346)**	17,124	**(43,145)**	15,998	**799**	1,126
Cash flows were invested as follows							
Increase in cash holdings		**33,476**	9,901	**33,412**	8,953	**64**	948
Tangible assets		–	7,218	–	7,218	–	–
Net portfolio investments							
Purchase of fixed-income securities		**222,109**	148,355	**217,083**	134,301	**5,026**	14,054
Purchase of equities		**16,913**	31,908	**16,866**	31,148	**47**	760
Sale of fixed-income securities		**(187,102)**	(143,679)	**(185,181)**	(129,270)	**(1,921)**	(14,409)
Sale of equities		**(127,742)**	(36,579)	**(125,325)**	(36,352)	**(2,417)**	(227)
Net cash flow from investing activities		**(75,822)**	7,223	**(76,557)**	7,045	**735**	178
Net investment of cash flows		**(42,346)**	17,124	**(43,145)**	15,998	**799**	1,126

The notes on pages 32 to 43 form part of the accounts.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution

The Association is incorporated in Bermuda as a company limited by guarantee and has a statutory reserve but no share capital. The members of the Association are liable for their rateable proportion of any deficiency of claims and expenses in excess of contributions and the Board of Directors decides whether any surplus is retained in the contingency reserve for the purposes of the Association or returned to members.

2. Accounting policies

(a) Basis of presentation

The group financial statements have been prepared in accordance with:

- applicable accounting standards in the United Kingdom
- Section 255A of, and Schedule 9A to, the UK Companies Act 1985
- the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') dated December 2005

The ABI revised its SORP on accounting for insurance business in 2005. The revised SORP has been applied in preparing these financial statements. The adoption of its provisions did not lead to any changes in accounting policy.

The balance sheet of the holding company has been prepared in accordance with Section 226 of, and Schedule 9A to, the UK Companies Act 1985.

The UK Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ('the Regulations') use 'Profit and Loss Account' as a heading, which is replaced by 'Income and Expenditure Account' throughout these financial statements consistent with the mutual status of the Association. All references to income and expenditure account in these financial statements have the same meaning as Profit and Loss Account in the Regulations.

The contingency reserve represents the free reserves of the Association and is established in accordance with Rule 15.11.1 of the Rules of the Association. The statutory reserve is established in accordance with Bermudian law. Once a year the Directors review and adopt the accounting policies that are most appropriate for the Association. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(b) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Association and its subsidiary undertakings.

(c) Annual basis of accounting

The transfer to or from the contingency reserve is determined using an annual basis of accounting.

For the purpose of reporting to mutual members, all transactions are allocated to individual policy years. The result of the policy year is determined and reported when it is closed after three years of development in accordance with Rule 15.5, which requires policy years to be held open for three years. At the end of each financial year, any anticipated surplus or deficit arising on open years is transferred to or from the contingency reserve.

(d) Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to members. Contributions for periods after the balance sheet date are treated as prepaid and are not included in the income and expenditure account.

(e) Claims incurred

Claims incurred comprise all claims passed by the Board, advances made on account of claims and related expenses paid in the year, and changes in provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses.

(f) Reinsurance recoveries

The liabilities of the Association are reinsured above certain levels with similar associations under the International Group's pooling agreement and with market underwriters. The figures in the consolidated statement of operations relate to recoveries on claims incurred during the year. Outstanding claims in the balance sheet are shown gross and the reinsurance recoveries are shown as an asset.

(g) Claims provisions and related reinsurance recoveries

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Association. The Association takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Liability and marine claims are long tail so a large element of the claims provision relates to IBNR. Claims estimates for the Association are derived from a combination of loss ratio-based estimates and a variety of estimation techniques. These are generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. However, allowance is made for changes or uncertainties that may create distortions in the underlying statistics or that may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in Association processes that might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods

- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks

The variety of estimation techniques assists in giving greater understanding of the trends inherent in the data being projected and in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each policy year.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Pollution and asbestosis claims can have a long delay between the occurrence and notification. In estimating the cost of these claims, the Association considers the type of risks written historically that may give rise to exposure to these liabilities, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean-up techniques and industry benchmarks of the typical cost of such claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, and are adjusted to reflect changes in the nature and extent of the Association's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance with regard to market data on the financial strength of each of the reinsurance companies.

(h) Reinsurance premiums

Reinsurance premiums include premiums paid in respect of the reinsurance agreement with market underwriters and a quota-share reinsurance agreement with Standard Reinsurance (Bermuda) Limited.

(i) Investment return

Investment return comprises all investment income, realised investment gains and losses, and movements in unrealised gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are accounted for on an accruals basis. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. The investment return is reported in the non-technical account.

(j) Investments

The investments held by the Association are shown at market value in the balance sheet. In the balance sheet of the company investments in group undertakings and participating interests are stated at cost, unless their value has been impaired, in which case, they are valued at their realisable value in use, as appropriate.

(k) Tangible assets

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives.
The cost of the Club's business systems has been capitalised as computer software. The original cost and any enhancements are written off over a ten-year period following installation.

(l) Foreign currencies

Assets and liabilities in foreign currencies are translated at the US dollar rate of exchange at the balance sheet date. Revenue transactions in foreign currencies are translated into US dollars at the rate applicable for the week in which the transaction takes place. Exchange differences are reported in the non-technical account.

(m) General administration expenses

General administration expenses, including Managers' remuneration, are included on an accruals basis.

(n) Taxation

Taxation provided is that which became chargeable during the year.

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the income and expenditure account. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the income and expenditure account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not that there will be suitable net taxable income from which the future reversal of the underlying timing differences can be deducted.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Gross premiums written including calls

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Estimated Total Premium, other premiums and releases 2007/08 (2006/07)	**165,031**	154,506	**159,677**	149,927	**5,354**	4,579
Adjustment for previous policy years	**3,838**	(2,156)	**3,068**	(2,486)	**770**	330
Total calls and premiums	**168,869**	152,350	**162,745**	147,441	**6,124**	4,909

4. Outward reinsurance premiums

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
International Group excess of loss	**26,911**	15,935	**26,911**	15,935	–	–
Adjustment to prior years	**1,338**	(1,612)	**1,338**	(1,612)	–	–
Other premiums	**18,915**	17,669	**18,247**	16,668	**668**	1,001
Adjustment to prior years	**(7,838)**	2,090	**(7,603)**	2,225	**(235)**	(135)
Commissions	**(2,865)**	(2,042)	**(2,865)**	(2,042)	–	–
Reinsurance premiums paid	**36,461**	32,040	**36,028**	31,174	**433**	866

5. Investment return

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Investment income						
Income from equities	**3,966**	2,466	**3,872**	2,387	**94**	79
Income from fixed-income securities	**10,305**	10,010	**9,691**	9,458	**614**	552
Deposit interest	**3,950**	3,540	**3,806**	3,421	**144**	119
Gains arising on realisation of investments	**58,109**	13,389	**56,840**	13,147	**1,269**	242
	76,330	29,405	**74,209**	28,413	**2,121**	992
Investment expenses and charges						
Investment management expenses	**(4,170)**	(3,687)	**(4,145)**	(3,672)	**(25)**	(15)
Losses on realisation of investments	**(4,624)**	(6,425)	**(4,624)**	(6,045)	–	(380)
	(8,794)	(10,112)	**(8,769)**	(9,717)	**(25)**	(395)
Unrealised (losses)/gains on investments	**(43,521)**	42,614	**(41,874)**	39,775	**(1,647)**	2,839
Total investment return	**24,015**	61,907	**23,566**	58,471	**449**	3,436

6. Claims

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Members' claims	**157,627**	127,338	**152,496**	123,667	**5,131**	3,671
Other P&I clubs' Pool claims	**23,468**	13,962	**23,468**	13,962	–	–
Gross claims paid	**181,095**	141,300	**175,964**	137,629	**5,131**	3,671

7. Reinsurers' share of claims paid

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Claims recoverable from reinsurers	**(20,284)**	(10,149)	**(19,357)**	(9,925)	**(927)**	(224)
Claims recoverable from Pool	**(1,923)**	(8,896)	**(1,923)**	(8,896)	**–**	–
Reinsurers' share of claims paid	**(22,207)**	(19,045)	**(21,280)**	(18,821)	**(927)**	(224)

8. Net operating expenses

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Acquisition costs						
Management fee	**6,051**	5,498	**5,873**	5,339	**178**	159
General expenses	**1,408**	1,051	**1,408**	1,051	**–**	–
General administration costs						
Management fee	**5,772**	4,806	**5,605**	4,656	**167**	150
General expenses	**2,281**	2,249	**2,278**	2,241	**3**	8
Amortisation	**722**	421	**722**	421	**–**	–
Safety and loss control	**814**	626	**814**	626	**–**	–
Directors' fees	**266**	236	**266**	236	**–**	–
Auditors' remuneration for audit services	**202**	377	**200**	378	**2**	(1)
Auditors' remuneration for non-audit services	**326**	135	**325**	132	**1**	3
Net operating expenses	**17,842**	15,399	**17,491**	15,080	**351**	319

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below.

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Audit services						
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated accounts	**99**	216	**97**	216	**2**	–
The audit of the Company's subsidiaries, pursuant to legislation	**63**	122	**63**	123	**–**	(1)
Non-audit services						
Fees payable to the Company's auditor and its associates for other services:						
Other services pursuant to legislation, including the audit of the regulatory return	**17**	23	**17**	23	**–**	–
Tax services	**309**	112	**308**	109	**1**	3
	488	473	**485**	471	**3**	2
Other auditors	**40**	39	**40**	39	**–**	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Tax charge

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Analysis of charge in the period						
Current tax						
Corporation tax at 30% (2007 30%)	**2,035**	803	**1,952**	750	**83**	53
Prior year						
Under provision for prior years	**186**	249	**185**	249	**1**	–
Deferred tax						
Origination and reversal of timing differences	**(743)**	424	**(707)**	379	**(36)**	45
	1,478	1,476	**1,430**	1,378	**48**	98
Factors affecting tax charge for the period						
Excess of income over expenditure before tax	**10,154**	27,111	**4,709**	24,276	**5,445**	2,835
Multiplied by the standard rate of tax at 30% (2007 30%)	**3,047**	8,134	**1,413**	7,283	**1,634**	851
Income not assessable for tax purposes	**(682)**	(6,966)	**904**	(6,168)	**(1,586)**	(798)
Unrealised (losses)/gains on investments revalued every year	**(330)**	(365)	**(365)**	(365)	**35**	–
Current tax	**2,035**	803	**1,952**	750	**83**	53

Corporation tax is charged on a proportion of the Association's consolidated investment income. The mutual activities of the Association are not subject to Corporation tax.

10. Deferred tax

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Recognised						
Recognised deferred tax liability at 21 February 2007	**(1,170)**	(758)	**(1,062)**	(695)	**(108)**	(63)
Recognised deferred tax movement	**742**	(412)	**706**	(367)	**36**	(45)
Recognised deferred tax liability at 20 February 2008	**(428)**	(1,170)	**(356)**	(1,062)	**(72)**	(108)
Unrealised gains on investments revalued every year	**(154)**	(773)	**(46)**	(665)	**(108)**	(108)
Timing differences	**(274)**	(397)	**(310)**	(397)	**36**	–
	(428)	(1,170)	**(356)**	(1,062)	**(72)**	(108)

11. Claims outstanding

The Board closed the 2005/06 Policy Year at its meeting on 16 May 2008.
The table below provides the position after closure.

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Group						
Open years						
Claims	**223,193**	228,003	**217,233**	218,991	**5,960**	9,012
Reinsurance recoveries	**(33,820)**	(25,963)	**(33,575)**	(25,912)	**(245)**	(51)
Net claims provision for open years	**189,373**	202,040	**183,658**	193,079	**5,715**	8,961
Closed years						
Claims	**259,515**	269,027	**254,595**	263,563	**4,920**	5,464
Reinsurance recoveries	**(46,788)**	(44,701)	**(45,228)**	(42,820)	**(1,560)**	(1,881)
Net claims provision for closed years	**212,727**	224,326	**209,367**	220,743	**3,360**	3,583
Total						
Claims	**482,708**	497,030	**471,828**	482,554	**10,880**	14,476
Reinsurance recoveries	**(80,608)**	(70,664)	**(78,803)**	(68,732)	**(1,805)**	(1,932)
Net claims provision	**402,100**	426,366	**393,025**	413,822	**9,075**	12,544
Company						
Open years						
Claims	**166,324**	175,464	**163,207**	168,491	**3,117**	6,973
Reinsurance recoveries						
– external	**(31,241)**	(17,582)	**(30,996)**	(17,533)	**(245)**	(49)
– group	**(121,574)**	(142,094)	**(118,989)**	(135,862)	**(2,585)**	(6,232)
Net claims provision for open years	**13,509**	15,788	**13,222**	15,096	**287**	692
Closed years						
Claims	**194,615**	211,099	**190,194**	206,206	**4,421**	4,893
Reinsurance recoveries						
– external	**(5,432)**	(1,840)	**(3,896)**	(365)	**(1,536)**	(1,475)
– group	**(170,264)**	(188,333)	**(167,668)**	(185,257)	**(2,596)**	(3,076)
Net claims provision for closed years	**18,919**	20,926	**18,630**	20,584	**289**	342
Total						
Claims	**360,939**	386,563	**353,401**	374,697	**7,538**	11,866
Reinsurance recoveries						
– external	**(36,673)**	(19,422)	**(34,892)**	(17,898)	**(1,781)**	(1,524)
– group	**(291,838)**	(330,427)	**(286,657)**	(321,119)	**(5,181)**	(9,308)
Net claims provision	**32,428**	36,714	**31,852**	35,680	**576**	1,034

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Other financial investments

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Group						
At market value						
Debt securities and other fixed-income securities	**240,938**	222,369	**225,481**	209,890	**15,457**	12,479
Shares and other variable-yield securities and unit trusts	**230,173**	300,452	**219,160**	286,817	**11,013**	13,635
Total investments at market value	**471,111**	522,821	**444,641**	496,707	**26,470**	26,114
At cost						
Debt securities and other fixed-income securities	**229,396**	218,362	**215,499**	206,950	**13,897**	11,412
Shares and other variable-yield securities and unit trusts	**166,643**	175,630	**158,135**	166,640	**8,508**	8,990
Total investments at cost	**396,039**	393,992	**373,634**	373,590	**22,405**	20,402
Company						
At market value						
Debt securities and other fixed-income securities	**19,205**	18,969	**17,551**	17,360	**1,654**	1,609
Shares and other variable-yield securities and unit trusts	**3,685**	7,502	**3,109**	6,976	**576**	526
Total investments at market value	**22,890**	26,471	**20,660**	24,336	**2,230**	2,135
At cost						
Debt securities and other fixed-income securities	**17,899**	18,688	**16,387**	17,176	**1,512**	1,512
Shares and other variable-yield securities and unit trusts	**2,640**	4,168	**2,140**	3,668	**500**	500
Total investments at cost	**20,539**	22,856	**18,527**	20,844	**2,012**	2,012

13. Management of financial risk

The following table reconciles the balance sheet to the categories used in the Group's ALM framework:

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Shares and other variable yield securities and units in unit trusts, at fair value through profit and loss:						
– listed securities	**166,516**	194,199	**163,524**	190,776	**2,992**	3,423
– unlisted securities	**63,657**	106,253	**55,636**	96,041	**8,021**	10,212
Derivative financial instruments, at fair value through profit or loss	**65,025**	61,630	**65,025**	61,630	**–**	–
Debt securities and other fixed income securities:						
– listed securities	**128,088**	102,768	**117,320**	93,895	**10,768**	8,873
– unlisted securities	**112,849**	119,601	**108,160**	115,995	**4,689**	3,606
Loans and receivables	**58,164**	44,777	**57,123**	44,080	**1,041**	697
Reinsurance assets	**84,020**	72,137	**82,046**	70,205	**1,974**	1,932
Other assets	**136,510**	102,626	**132,419**	98,454	**4,091**	4,172
Total assets	**814,829**	803,991	**781,253**	771,076	**33,576**	32,915
Claims outstanding	**482,708**	497,030	**471,828**	482,554	**10,880**	14,476
Financial liabilities under investment contracts	**65,521**	61,630	**65,521**	61,630	**–**	–
Provisions for other risks and charges	**428**	1,170	**356**	1,062	**72**	108
Other liabilities	**37,382**	23,747	**35,181**	20,442	**2,201**	3,305
Total liabilities	**586,039**	583,577	**572,886**	565,688	**13,153**	17,889

13. Management of financial risk continued

Credit risk

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Derivative financial instruments	**65,025**	61,630	**65,025**	61,630	–	–
Debt securities	**240,938**	222,369	**225,481**	209,890	**15,457**	12,479
Loans and receivables	**54,752**	43,304	**53,880**	42,607	**872**	697
Assets arising from reinsurance contracts held	**3,412**	1,473	**3,243**	1,473	**169**	–
Cash at bank and in hand	**115,226**	81,750	**111,361**	77,949	**3,865**	3,801
Total assets bearing credit risk	**479,353**	410,526	**458,990**	393,549	**20,363**	16,977
AAA	**241,148**	196,739	**225,691**	184,920	**15,457**	11,819
AA	**44,831**	34,985	**43,127**	32,952	**1,704**	2,033
A	**137,551**	111,625	**135,390**	109,857	**2,161**	1,768
BBB	–	–	–	–	–	–
Below BBB or not rated	**55,823**	67,177	**54,782**	65,820	**1,041**	1,357
Total assets bearing credit risk	**479,353**	410,526	**458,990**	393,549	**20,363**	16,977

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

Liquidity risk

The table below provides a contractual maturity analysis of the Group's financial liabilities:

	< 6 mths or on demand		> 6 months		**Total**	
	Class 1 US$000	Class 2 US$000	Class 1 US$000	Class 2 US$000	**Class 1 US$000**	**Class 2 US$000**
At 20 February 2008						
Financial liabilities under investment contracts	65,521	–	–	–	**65,521**	–
Creditors	36,283	669	–	–	**36,283**	**669**
	101,804	669	–	–	**101,804**	**669**
At 21 February 2007						
Financial liabilities under investment contracts	61,630	–	–	–	**61,630**	–
Creditors	22,611	779	–	–	**22,611**	**779**
	84,241	779	–	–	**84,241**	**779**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Tangible assets

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Group						
Book cost						
At 21 February 2007	**7,218**	–	**7,218**	–	–	–
Additions	–	7,218	–	7,218	–	–
At 20 February 2008	**7,218**	7,218	**7,218**	7,218	–	–
Amortisation						
At 21 February 2007	**421**	–	**421**	–	–	–
Charge for the year	**722**	421	**722**	421	–	–
At 20 February 2008	**1,143**	421	**1,143**	421	–	–
Net book value	**6,075**	6,797	**6,075**	6,797	–	–
Company						
Book cost						
At 21 February 2007	**7,218**	–	**7,218**	–	–	–
Additions	–	7,218	–	7,218	–	–
At 20 February 2008	**7,218**	7,218	**7,218**	7,218	–	–
Amortisation						
At 21 February 2007	**421**	–	**421**	–	–	–
Charge for the year	**722**	421	**722**	421	–	–
At 20 February 2008	**1,143**	421	**1,143**	421	–	–
Net book value	**6,075**	6,797	**6,075**	6,797	–	–

15. Investment in group undertakings and participating interests

	Classes of shares held	Year end	Principal business	% holding Group	% holding Company
Standard Reinsurance (Bermuda) Limited, incorporated in Bermuda	Ordinary	20 Feb	Reinsurance	100	100
The Standard Steamship Owners' Protection and Indemnity Association (Europe) Limited, incorporated in the United Kingdom[1]	Ordinary	20 Feb	Marine mutual	75	75
The Standard Steamship Owners' Protection and Indemnity Association (Asia) Limited, incorporated in Singapore	Ordinary	20 Feb	Marine mutual	100	20
Poseidon Insurance Company Pty Limited, incorporated in Australia[2]	Ordinary	30 Jun	Insurance	100	100
SRB Limited, incorporated in Bermuda	Ordinary	20 Feb	Broker	80	80
Taylor Hedge Fund, incorporated in Bermuda[3]	Ordinary	31 Dec	Equity investment	95	–
Hydra Insurance Company Limited (Standard Cell)[4]	Ordinary	20 Feb	Reinsurance	100	100

1 75% of voting control, no participating interest. No minority interest is shown in the group accounts because the affairs of each class are managed on a unified basis throughout the group.

2 The results of Poseidon Insurance Company are included up to its most recent year end, 30 June 2007. Since that date, there have been no material changes to its net assets.

3 The results of the Taylor Hedge Fund have been rolled forward from its most recent year end, 31 December 2007 to 20 February 2008.

4 The results of Hydra Insurance Company are included up to its most recent year end, 20 February 2008.

All subsidiary undertakings are consolidated in the financial statements.

16. Debtors arising out of direct insurance operations

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Group						
Members	**39,077**	36,533	**38,276**	35,848	**801**	685
Intermediaries	**199**	1,020	**139**	1,014	**60**	6
Reinsurers	**3,412**	1,473	**3,243**	1,473	**169**	–
Debtors arising out of direct insurance operations	**42,688**	39,026	**41,658**	38,335	**1,030**	691
Company						
Members	**16,899**	24,405	**16,707**	23,799	**192**	606
Intermediaries	**193**	1,001	**133**	995	**60**	6
Reinsurers	**5,491**	1,277	**5,322**	1,277	**169**	–
Debtors arising out of direct insurance operations	**22,583**	26,683	**22,162**	26,071	**421**	612

17. Contingency reserve

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Group						
Balance at beginning of year	**217,155**	192,037	**202,129**	179,748	**15,026**	12,289
Transfer from non-technical account	**8,727**	25,118	**3,330**	22,381	**5,397**	2,737
Balance on contingency reserve at end of year	**225,882**	217,155	**205,459**	202,129	**20,423**	15,026
Company						
Balance at beginning of year	**48,839**	51,919	**48,438**	50,774	**401**	1,145
Transfer (to)/from non-technical account	**(5,551)**	(3,080)	**(6,157)**	(2,336)	**606**	(744)
Balance on contingency reserve at end of year	**43,288**	48,839	**42,281**	48,438	**1,007**	401

18. Reconciliation of operating surplus to net cash flow from operating activities

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Excess of income over expenditure before tax	**10,154**	27,111	**4,709**	24,276	**5,445**	2,835
Gains arising on realisation of investments	**(58,109)**	(13,389)	**(56,840)**	(13,147)	**(1,269)**	(242)
Losses arising on realisation of investments	**4,624**	6,425	**4,624**	6,045	**–**	380
Unrealised losses/(gains) on revaluation of investments	**43,521**	(42,614)	**41,874**	(39,775)	**1,647**	(2,839)
Amortisation	**722**	421	**722**	421	**–**	–
(Increase)/decrease in debtors	**(27,109)**	48,434	**(26,380)**	49,980	**(729)**	(1,546)
(Decrease)/increase in net claims provision	**(24,266)**	23,279	**(20,797)**	22,298	**(3,469)**	981
Increase/(decrease) in creditors	**9,203**	(32,039)	**9,978**	(33,637)	**(775)**	1,598
Net cash flow from operating activities	**(41,260)**	17,628	**(42,110)**	16,461	**850**	1,167

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. Movement in opening and closing portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
Net cash flow for the year	**33,476**	9,901	**33,412**	8,953	**64**	948
Portfolio investments	**(75,822)**	5	**(76,557)**	(173)	**735**	178
Movement arising from cash flows	**(42,346)**	9,906	**(43,145)**	8,780	**799**	1,126
Change in market value	**24,112**	51,607	**24,491**	48,902	**(379)**	2,705
Total movement in portfolio investments	**(18,234)**	61,513	**(18,654)**	57,682	**420**	3,831
Portfolio investments at 21 February 2007	**604,571**	543,058	**574,656**	516,974	**29,915**	26,084
Portfolio investments at 20 February 2008	**586,337**	604,571	**556,002**	574,656	**30,335**	29,915
Total movement in portfolio investments	**(18,234)**	61,513	**(18,654)**	57,682	**420**	3,831

20. Movements in cash and portfolio investments

	Total		Class 1 – P&I		Class 2 – Defence	
	2008 US$000	2007 US$000	**2008 US$000**	2007 US$000	**2008 US$000**	2007 US$000
At 21 February 2007						
Cash at bank and in hand	**81,750**	71,849	**77,949**	68,996	**3,801**	2,853
Shares and other variable-yield securities and unit trusts	**300,452**	242,379	**286,817**	231,648	**13,635**	10,731
Debt securities and other fixed-income securities	**222,369**	228,830	**209,890**	216,330	**12,479**	12,500
Total balance at 21 February 2007	**604,571**	543,058	**574,656**	516,974	**29,915**	26,084
Cash flow						
Cash at bank and in hand	**33,476**	9,901	**33,412**	8,953	**64**	948
Shares and other variable-yield securities and unit trusts	**(110,829)**	(4,671)	**(108,459)**	(5,204)	**(2,370)**	533
Debt securities and other fixed-income securities	**35,007**	4,676	**31,902**	5,031	**3,105**	(355)
Cash flow for year	**(42,346)**	9,906	**(43,145)**	8,780	**799**	1,126
Changes in market value						
Shares and other variable-yield securities and unit trusts	**40,550**	62,744	**40,802**	60,373	**(252)**	2,371
Debt securities and other fixed-income securities	**(16,438)**	(11,137)	**(16,311)**	(11,471)	**(127)**	334
Changes in market value for year	**24,112**	51,607	**24,491**	48,902	**(379)**	2,705
At 20 February 2008						
Cash at bank and in hand	**115,226**	81,750	**111,361**	77,949	**3,865**	3,801
Shares and other variable-yield securities and unit trusts	**230,173**	300,452	**219,160**	286,817	**11,013**	13,635
Debt securities and other fixed-income securities	**240,938**	222,369	**225,481**	209,890	**15,457**	12,479
Total balance at 20 February 2008	**586,337**	604,571	**556,002**	574,656	**30,335**	29,915

21. Movement in prior years' provision for claims outstanding

	Total		Class 1 – P&I		Class 2 – Defence	
	2008	2007	**2008**	2007	**2008**	2007
	US$000	US$000	**US$000**	US$000	**US$000**	US$000
Improvement in respect of prior years	**40,090**	25,266	**35,650**	23,592	**4,440**	1,674

22. Open forward exchange contracts

The net book cost of forward exchange transactions at the year end amounted to $0.1 (2007 $0.1) million. The value of these transactions at the year end market rates amounted to $0.5 (2007 $0.1) million. These contracts have been entered into to protect the assets of the Association. The total of the open forward contracts at any one time is limited by guidelines set by the Board of Directors and matched against currency and asset holdings in excess of the amount of the contracts.

23. Letters of credit, bail bonds and guarantees

In connection with its commitments to other members of the International Group and its guarantees on behalf of its members, the Association has provided letters of credit, bail bonds and guarantees, which are secured by investments lodged with the issuer amounting to $84 (2007 $58) million.

24. Capital commitments

The Company, through a wholly owned subsidiary, has committed to acquire the freehold of a property in London. The initial capital outlay is estimated at $26m and additional redevelopment costs estimated at $15.5m to $17m are expected to be incurred.

25. Rates of exchange

	2008	2007
The following rates of exchange were applicable to US$1 at 20 February 2008 (2007)		
Australian dollars	**1.10**	1.27
Bermudan dollars	**1.00**	1.00
Canadian dollars	**1.00**	1.16
Euro	**0.68**	0.76
Japanese yen	**107.62**	119.31
Singapore dollars	**1.41**	1.53
Swiss francs	**1.09**	1.24
UK sterling	**0.51**	0.51

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APPENDICES
(UNAUDITED)

The following appendices are provided to show the movement in the Club's P&I Class reserves during the year, and the progress and likely outcome of the open policy years. These appendices are not part of the audited accounts.

The figures are prepared under the accounting policies used within the financial statements. The estimates for known outstanding claims are based on the best estimates and judgement of the Managers of the likely final cost of individual cases. These estimates are as accurate as possible and take into account all the current information. Individual estimates are reviewed regularly and include the Club's share of other International Group members' Pool claims.

The forecast of incurred but not reported claims (IBNR) is based on the amount that should be provided for the estimated ultimate cost of claims arising out of events that have occurred before the end of the accounting period but that have not been reported. It also covers deterioration in the estimates of claims that have already been reported. The estimate for IBNR is calculated by comparing the pattern of both incurred and paid claims in current policy years with earlier policy years, and then projecting the likely outcome of the more recent years. These forecasts of IBNR are subject to regular review during the life of a policy year.

The total of outstanding claims of $393m includes a forecast for IBNR of $114m on open and closed policy years. The known outstanding claims of $282m are net of all reinsurance recoveries.

The Board closed the 2005/06 policy year at its meeting on 16 May 2008 on the basis of the financial position as at 20 February 2008. The appendices show the position after this closure.

APPENDIX I (UNAUDITED)

Funds available for outstanding and unreported claims
Class 1 – P&I summary

	Appendix reference	Funds available and estimated future supplementary calls US$000	Estimated net claims and forecast of unreported claims US$000
At 20 February 2008			
Total closed policy years	III	209,367	209,367
Open policy years			
2007/08	II	118,145	118,145
2006/07	II	65,513	65,513
Total of open policy years		183,658	183,658
Reserves			
Contingency reserve	III	205,459	–
Statutory reserve		240	–
		205,699	–
Future funds and liabilities		598,724	393,025

These appendices should be read in conjunction with the notes on the preceding pages.

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APPENDIX II (UNAUDITED)

Funds available for outstanding and unreported claims
Class 1 – P&I open policy years

		2007 One year from inception US$000	2006 Two years from inception US$000	2005 Three years from inception US$000
At 20 February 2008				
Calls and premiums		159,677	152,077	159,109
Less: claims, reinsurance premiums, administration expenses and tax		(99,098)	(134,279)	(130,473)
		60,579	17,798	28,636
Investment income to date		27,940	62,817	36,578
Funds available	A	88,519	80,615	65,214
Estimated known outstanding claims and forecast of unreported claims		131,418	85,817	65,699
Estimated reinsurance recoveries		(13,273)	(20,304)	(12,840)
	B	118,145	65,513	52,859
Anticipated (deficit)/surplus at closure	A-B	(29,626)	15,102	–
Surplus on closure of 2005/06 year		–	–	12,355
Transferred to contingency reserve to 20 February 2007		–	(5,943)	(9,770)
Transferred from/(to) contingency reserve at 20 February 2008		29,626	(9,159)	(2,585)
		–	–	–
Product of a 10% supplementary call		12,311	11,993	–

Notes

Estimated known outstanding claims and the forecast of unreported claims of open years include Pool claims amounting to $45.2m and are shown net of anticipated Pool recoveries of $10.4m. There were no estimated outstanding excess of loss reinsurance recoveries.

Estimated reinsurance recoveries show the reinsurance recoveries to be made on other reinsurance contracts net of provision for doubtful recoveries.

Investment income

All investment income received in the year has been allocated to the 2007/08 policy year.

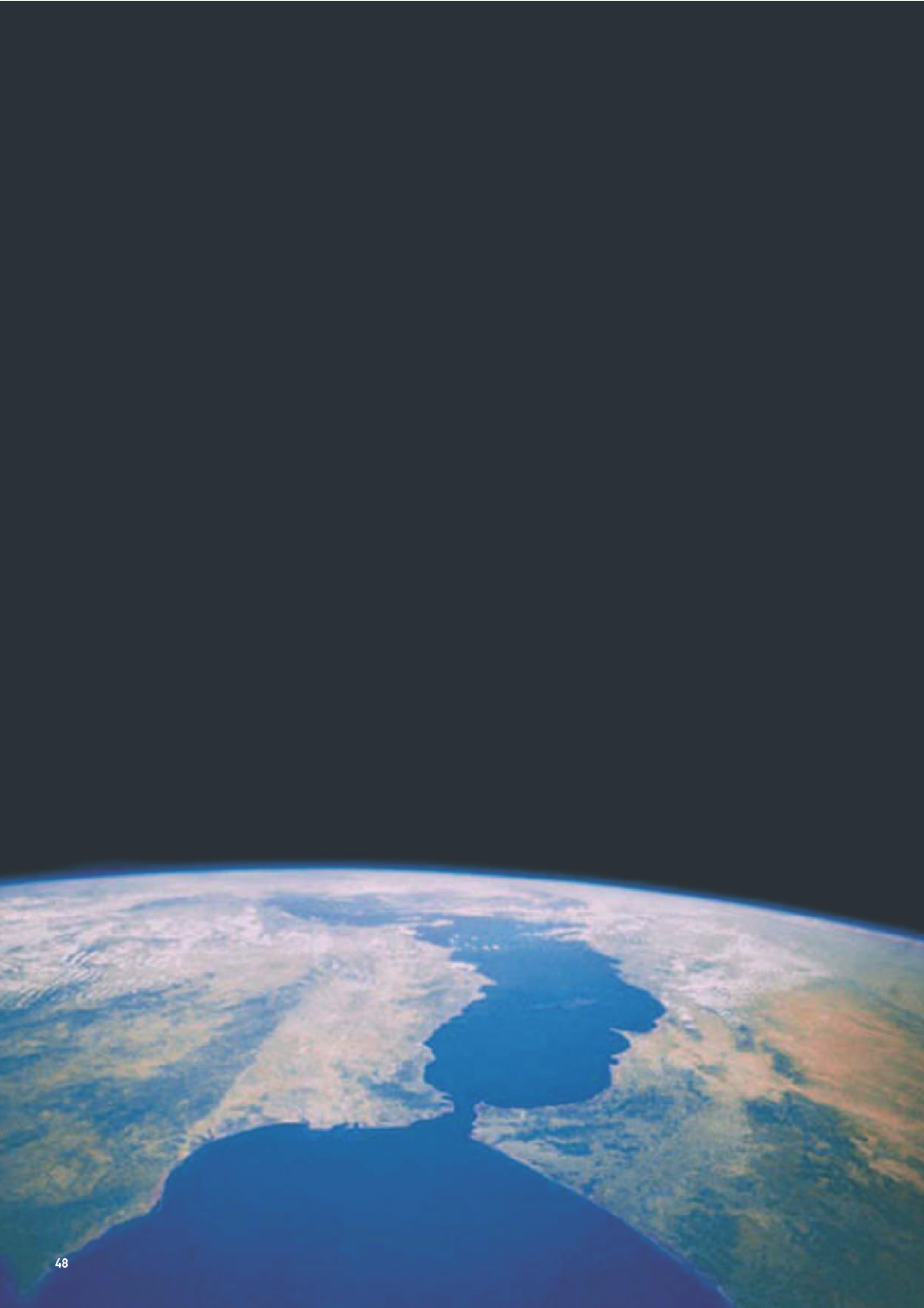
APPENDIX III (UNAUDITED)

Funds available for outstanding and unreported claims
Class 1 - P&I closed policy years and contingency reserve

	Closed policy years		Contingency reserve	
	2008	2007	**2008**	2007
	US$000	US$000	**US$000**	US$000
At 20 February 2008				
Balance available at 20 February 2007 (2006)	**220,743**	191,560	**202,129**	179,749
Transfers on closure of 2005/06 (2004/05) policy year	**52,859**	61,091	**2,585**	11,383
Premium adjustment	–	–	**217**	(2,018)
Claims paid net of reinsurance recoveries	**(43,291)**	(29,998)	–	–
	230,311	222,653	**204,931**	189,114
Transfer of anticipated (deficit)/surplus on open years	–	–	**(20,467)**	11,622
Minority interest	–	–	**51**	(517)
(Improvement)/deterioration of claims in closed policy years	**(20,944)**	(1,910)	**20,944**	1,910
Balance available at 20 February 2008 (2007)	**209,367**	220,743	**205,459**	202,129

Closed policy years

The balance available for outstanding claims of closed policy years includes a provision for incurred but not reported claims (IBNR) of $34.1 (2007 $35.9) million and is shown net of Pool recoveries of $7.3 (2007 $8.8) million and excess of loss recoveries of $3.9 (2007 $7.2) million and other non-Group reinsurance recoveries, which amount to $39.3 (2007 $35.0) million. The balance available including IBNR, includes $20.5 (2007 $23.4) million in respect of outstanding Pool claims.



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