

**TO ALL MEMBERS**

16 May 2008

Dear Sirs

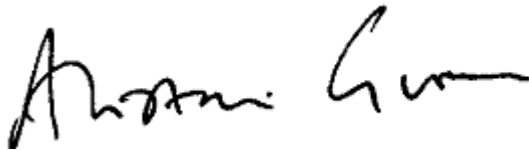
**STANDARD STEAMSHIP OWNERS' PROTECTION & INDEMNITY ASSOCIATION  
(EUROPE) LIMITED  
ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 20 FEBRUARY 2008**

This year's Report and Accounts are set out on the following pages, together with the Notice of the Annual General meeting.

Owing to the reinsurance arrangements of both the P&I and Defence classes, the Report and Accounts of Standard Europe should be read in conjunction with the Report and Accounts of Standard Bermuda, Standard Europe's parent, which are drawn up on a consolidated basis showing the group P&I and Defence positions.

The Standard Bermuda Report and Accounts will be published in June and will be sent to all members.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Alistair Groom', written in a cursive style.

Alistair Groom  
Chief Executive  
Charles Taylor & Co Ltd

## **DIRECTORS**

R Menendez Ross  
Chairman  
Ultrapetrol (Bahamas) S.A.

J de Sendagorta  
Maritima del Norte

A J Groom  
Manager

J S M Rowe  
Manager

Registered in England  
Company number 17864

## NOTICE OF MEETING

*To the Members of the Standard Steamship Owners' Protection & Indemnity Association  
(Europe) Limited*

Notice is hereby given that the 124<sup>th</sup> Annual General Meeting of the Members will be held in Mumbai, on 10 October 2008 at 9am.

### *Business*

To adopt the Report and Accounts.

To reappoint PricewaterhouseCoopers LLP as Auditors and to authorise the Directors to fix their remuneration.

To re-elect Directors who retire in accordance with the Articles of Association.  
Any other business.

By order of the Board,  
Charles Taylor & Co Limited

*Secretary*  
16 May 2008

## **REPORT OF THE DIRECTORS**

The Directors have pleasure in presenting their Report and Accounts of the Association for the year ended 20 February 2008.

### **Principal activities**

The principal activities of the Association and its subsidiaries during the year were the insurance and reinsurance of marine protection and indemnity and related risks on behalf of the members.

### **Business review**

Both the Defence and P&I classes continue to be substantially reinsured through a 90% quota-share reinsurance contract with Standard Reinsurance (Bermuda) Ltd, a wholly-owned subsidiary of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Ltd. The combined financial position of each class is set out in the Annual Report and Accounts of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Ltd. Under the group guarantee \$10.0m was received from the Association's parent undertaking

### **P&I class**

The Estimated Total Premium for the 2007/08 year amounted to \$64.6m, of which \$39.6m was paid to Standard Reinsurance (Bermuda) Ltd. under the quota-share contract. A further \$8.4m was paid to Standard Reinsurance (Bermuda) Ltd. under the quota-share investment allocation. The combined P&I class position, set out in the accounts of The Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Ltd., shows that a deficit is currently expected for this policy year.

In May this year, the Board decided to close the 2005/06 policy year without further call. The members were also advised that no supplementary calls were likely for the 2006/07 or 2007/08 policy years.

### **Defence class**

The Estimated Total Premium for the 2007/08 year amounted to \$2.5m, of which \$1.8m was paid to Standard Reinsurance (Bermuda) Ltd. under the quota-share contract. A further \$0.9m was received from Standard Reinsurance (Bermuda) Ltd. under the quota-share investment allocation. The combined Defence class position, set out in the accounts of The Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Ltd., shows that a surplus is currently expected for this policy year.

In May this year, the Board decided to close the 2005/06 policy year without further call. The members were also advised that no supplementary calls were likely for the 2006/07 or 2007/08 policy years.

### **Financial instruments**

The Club is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. The Club manages these positions within an investment strategy.

### **Principal business risks**

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.

### **Future outlook**

The Association will continue to write business under the two existing classes, following a policy of selective underwriting.

**Key performance indicators**

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

	<b>2008</b>	<b>2007</b>
<b>Premium \$m</b>	66.9	32.6
<b>Free reserves \$m</b>	10.3	5.2
<b>Claims cover <sup>*1</sup></b>	2.82	2.35
<b>Combined ratio %</b>	331	-75

\*1. Ratio of net assets to outstanding claims

**Directors**

The Directors of the Association are as shown on Page 1 of this report.

The Directors retiring by rotation, in accordance with the Articles of Association, are Mr R Menendez Ross and Mr A J Groom.

**Auditors**

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their re-appointment will be submitted at the annual general meeting.

By order of the Board,

Charles Taylor & Co Limited  
*Secretary*

16 May 2008

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors 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 preparing 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 judgments 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 a 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 the UK concerning the preparation and dissemination of financial statements may differ in other jurisdictions.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and which enable them to ensure that the financial statements comply with the UK Companies Act 1985.

They are also responsible for safeguarding the assets of the Association, and hence for taking reasonable steps for the prevention and detection of 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 are 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.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANDARD STEAMSHIP OWNER'S PROTECTION & INDEMNITY ASSOCIATION (EUROPE) LIMITED**

We have audited the financial statements of Standard Steamship Owner's Protection & Indemnity Association (Europe) Limited ('the Association') for the year ended 20 February 2008 which comprise the income and expenditure account, the balance sheet, the 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**

As described in the Statement of Directors' Responsibilities the company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Association's affairs as at 20 February 2008 and of its 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

20 May 2008

## FINANCIAL STATEMENTS

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**INCOME AND EXPENDITURE ACCOUNT**  
for the year ended 20 February 2008

	Notes	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
<b>Technical account - general business</b>							
<b>Income</b>							
Gross premiums written including calls	3	66,924	32,602	64,459	32,248	2,465	354
Outward reinsurance premiums	4	(63,919)	(37,658)	(62,756)	(35,791)	(1,163)	(1,867)
Earned calls, net of reinsurance		3,005	(5,056)	1,703	(3,543)	1,302	(1,513)
<b>Total income</b>		<b>3,005</b>	<b>(5,056)</b>	<b>1,703</b>	<b>(3,543)</b>	<b>1,302</b>	<b>(1,513)</b>
<b>Expenditure</b>							
Claims paid		28,660	19,824	27,795	19,843	865	(19)
Reinsurers' share		(22,704)	(14,919)	(22,015)	(15,013)	(689)	94
Net claims paid		5,956	4,905	5,780	4,830	176	75
Change in provision for claims		10,888	(17,250)	8,424	(17,189)	2,464	(61)
Reinsurers' share		(9,084)	14,195	(6,905)	14,120	(2,179)	75
Change in net provision for claims		1,804	(3,055)	1,519	(3,069)	285	14
Claims incurred, net of reinsurance		7,760	1,850	7,299	1,761	461	89
Net operating expenses	5	2,174	1,950	2,114	1,892	60	58
<b>Total expenditure</b>		<b>9,934</b>	<b>3,800</b>	<b>9,413</b>	<b>3,653</b>	<b>521</b>	<b>147</b>
<i>Balance on the technical account for general business</i>		<b>(6,929)</b>	<b>(8,856)</b>	<b>(7,710)</b>	<b>(7,196)</b>	<b>781</b>	<b>(1,660)</b>
<b>Non-technical account</b>							
Balance on the technical account for general business		(6,929)	(8,856)	(7,710)	(7,196)	781	(1,660)
Investment income	6	2,369	1,246	2,258	1,149	111	97
Investment expenses and charges	6	(112)	(249)	(108)	(220)	(4)	(29)
Unrealised (losses)/gains on investments	6	(173)	192	(156)	(11)	(17)	203
Exchange gains		859	57	841	38	18	19
Other income	7	10,000	-	10,000	-	-	-
Excess/(shortfall) of income over expenditure before tax		6,014	(7,610)	5,125	(6,240)	889	(1,370)
Tax charge	8	(897)	(296)	(883)	(226)	(14)	(70)
<b>Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve</b>		<b>5,117</b>	<b>(7,906)</b>	<b>4,242</b>	<b>(6,466)</b>	<b>875</b>	<b>(1,440)</b>

The income, expenditure and results for the year are wholly derived from continuing activities.

**BALANCE SHEET**  
at 20 February 2008

	Notes	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
<b>Assets</b>							
<b>Investments</b>							
Other financial investments	10	32,521	22,594	30,217	20,756	2,304	1,838
<b>Reinsurers' share of technical provisions</b>							
Claims outstanding	11	87,671	78,587	84,906	78,001	2,765	586
<b>Debtors</b>							
Debtors arising out of direct insurance operations	12	18,063	8,463	17,585	8,385	478	78
Amounts owed by group undertakings		7,794	-	7,794	-	-	-
Other debtors		52	207	51	207	1	-
		25,909	8,670	25,430	8,592	479	78
<b>Other assets</b>							
Cash at bank and in hand		10,265	4,674	9,326	3,626	939	1,048
Prepayments and accrued income		2,198	360	2,119	346	79	14
		12,463	5,034	11,445	3,972	1,018	1,062
<i>Total assets</i>		158,564	114,885	151,998	111,321	6,566	3,564
<b>Liabilities</b>							
<b>Reserves</b>							
Contingency reserve	13	10,305	5,188	9,805	5,563	500	(375)
		10,305	5,188	9,805	5,563	500	(375)
<b>Technical provisions</b>							
Gross claims outstanding	11	93,330	82,442	90,260	81,836	3,070	606
<b>Creditors</b>							
Creditors arising out of direct insurance operations		17,538	3,809	16,975	3,733	563	76
Other creditors including taxation		4,151	273	4,106	251	45	22
		21,689	4,082	21,081	3,984	608	98
Accruals and deferred income		41	58	40	55	1	3
Deferred tax	9	118	178	46	70	72	108
Amounts owed to group undertakings		33,081	22,937	30,772	19,861	2,309	3,076
Current account between classes		-	-	(6)	(48)	6	48
		54,929	27,255	51,933	23,922	2,996	3,333
<i>Total liabilities</i>		158,564	114,885	151,998	111,321	6,566	3,564

**R Menendez Ross Director**

**16 May 2008**

The notes on pages 11 to 19 form part of the accounts

**CASH FLOW STATEMENT**  
for the year ended 20 February 2008

	Notes	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
Net cash flow from operating activities	17	<b>15,151</b>	(3,121)	<b>14,754</b>	(3,483)	<b>397</b>	362
<b>Taxation</b>							
United Kingdom Corporation Tax paid		<b>(322)</b>	(90)	<b>(298)</b>	(74)	<b>(24)</b>	(16)
Net inflow/(outflow)		<b>14,829</b>	(3,211)	<b>14,456</b>	(3,557)	<b>373</b>	346
<b>Cash flows were invested as follows</b>							
Increase/(decrease) in cash holdings	16	<b>5,591</b>	1,143	<b>5,700</b>	1,514	<b>(109)</b>	(371)
Net portfolio investments							
Fixed income securities	15	<b>9,208</b>	(4,378)	<b>8,756</b>	(5,071)	<b>452</b>	693
Equities	15	<b>30</b>	24	-	-	<b>30</b>	24
Net cash flow from investing activities		<b>9,238</b>	(4,354)	<b>8,756</b>	(5,071)	<b>482</b>	717
Net investment/(application) of cash flows		<b>14,829</b>	(3,211)	<b>14,456</b>	(3,557)	<b>373</b>	346
<b>Movement in operating and closing portfolio investments</b>							
Net cash inflow/(outflow) for the year	16	<b>5,591</b>	1,143	<b>5,700</b>	1,514	<b>(109)</b>	(371)
Portfolio investments	15	<b>9,238</b>	(4,354)	<b>8,756</b>	(5,071)	<b>482</b>	717
Movement arising from cashflows		<b>14,829</b>	(3,211)	<b>14,456</b>	(3,557)	<b>373</b>	346
Changes in market values and exchange rate effects	16	<b>689</b>	(8)	<b>705</b>	(184)	<b>(16)</b>	176
Total movement in portfolio investments net of financing		<b>15,518</b>	(3,219)	<b>15,161</b>	(3,741)	<b>357</b>	522
Portfolio investments at 21 February 2007		<b>27,268</b>	30,487	<b>24,382</b>	28,123	<b>2,886</b>	2,364
Portfolio investments at 20 February 2008		<b>42,786</b>	27,268	<b>39,543</b>	24,382	<b>3,243</b>	2,886

The notes on pages 11 to 19 form part of the accounts

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Constitution

The Association is limited by guarantee. 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 preparation*

The financial statements have been prepared in accordance with:

- applicable accounting standards in the United Kingdom
- Section 255 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 adoptions of its provision did not lead to any changes in accounting policy.

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.

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) 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 Rules of the Association that 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.

#### *(c) 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.

#### *(d) 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 of, including provisions for claims incurred but not reported and related expenses.

#### *(e) 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 exposures. 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.

Marine liability claims are long tail in nature and consequently a significant 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 might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in Association processes which 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.

Asbestosis and other environmental health related claims may 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 risks, 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 claims of these kind.

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 recoveries with regard to market data on the financial strength of each of the reinsurance companies.

*(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) Reinsurance premium*

Reinsurance premiums include premiums paid in respect of the reinsurance agreement with market underwriters on an accruals basis.

*(h) 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 gross of 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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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. Investment return is reported in the non-technical account.

*(i) Investments*

The investments held by the Association are shown at market value in the balance sheet.

*(j) 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.

*(k) General administration expenses*

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

*(l) 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 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 taxable profits from which the future reversal of the underlying timing differences can be deducted.

### 3. Gross premiums written including calls

	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
Estimated Total Premium, other premiums and releases 2007/08 (2006/07)	67,051	32,969	64,578	32,607	2,473	362
Adjustment for previous policy years	(127)	(367)	(119)	(359)	(8)	(8)
<b>Total calls and premiums</b>	<b>66,924</b>	<b>32,602</b>	<b>64,459</b>	<b>32,248</b>	<b>2,465</b>	<b>354</b>

### 4. Outward reinsurance premiums

	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
Quota-share reinsurance premium payable to Standard Reinsurance (Bermuda) Limited	41,428	22,336	39,646	22,234	1,782	102
Quota-share investment allocation	7,458	12,709	8,392	11,030	(934)	1,679
Other reinsurance premiums	15,033	2,613	14,718	2,527	315	86
<b>Reinsurance premiums paid</b>	<b>63,919</b>	<b>37,658</b>	<b>62,756</b>	<b>35,791</b>	<b>1,163</b>	<b>1,867</b>

The quota share agreement with Standard Reinsurance (Bermuda) Limited requires an annual adjustment between the two companies based on the two companies' investment holdings.

### 5. Net operating expenses

	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
<b>Acquisition costs</b>						
Management fee	1,004	901	974	874	30	27
General expenses	2	1	2	1	-	-
<b>General administration costs</b>						
Management fee	948	851	920	825	28	26
General expenses	106	86	104	81	2	5
Safety & loss control	91	28	91	28	-	-
Auditors' remuneration for audit services	11	46	11	47	-	(1)
Auditors' remuneration for non audit services	12	37	12	36	-	1
<b>Net operating expenses</b>	<b>2,174</b>	<b>1,950</b>	<b>2,114</b>	<b>1,892</b>	<b>60</b>	<b>58</b>

All the directors of the Association are also directors of the ultimate parent undertaking from whom they receive

During the year the Company obtained the following services from the Company's auditor at costs as detailed below:

	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
<b>Audit Services</b>						
Fees payable to the Company's auditor for the audit of the Company:						
Audit for UK GAAP reporting	11	46	11	47	-	(1)
<b>Non-audit Services</b>						
Fees payable to the Company's auditor for other services:						
(a) Other services pursuant to legislation, including the audit of the regulatory return	3	7	3	6	-	1
(b) Tax services	9	30	9	30	-	-
<b>Net operating expenses</b>	<b>23</b>	<b>83</b>	<b>23</b>	<b>83</b>	<b>-</b>	<b>-</b>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Investment return

	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
<b>Investment income</b>						
Income from equities	33	26	-	-	33	26
Income from fixed-income securities	1,063	835	1,036	814	27	21
Deposit interest	314	344	263	294	51	50
Gains arising on realisation of investments	959	41	959	41	-	-
	<b>2,369</b>	1,246	<b>2,258</b>	1,149	<b>111</b>	97
<b>Investment expenses and charges</b>						
Investment management expenses	(14)	(10)	(10)	(7)	(4)	(3)
Losses on realisation of investments	(98)	(239)	(98)	(213)	-	(26)
	<b>(112)</b>	(249)	<b>(108)</b>	(220)	<b>(4)</b>	(29)
Unrealised (losses)/gains on investments	(173)	192	(156)	(11)	(17)	203
<i>Total investment return</i>	<b>2,084</b>	1,189	<b>1,994</b>	918	<b>90</b>	271

7. Other income

The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited ("Bermuda") has guaranteed that it will provide the Association with the financial resources necessary to enable the Association to meet its liabilities as they fall due. Pursuant to this guarantee, on 19 February 2008, Bermuda gifted the Association \$10 million.

8. Tax charge

	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
<b>Analysis of tax charge for the period</b>						
<b>Current charge</b>						
Corporation tax at 30.0% (2007 30.0%)	885	253	837	228	48	25
<b>Prior years</b>						
Under provision for prior years	72	21	70	21	2	-
<b>Deferred tax</b>						
Origination and reversal of timing differences	(60)	22	(24)	(23)	(36)	45
	<b>897</b>	296	<b>883</b>	226	<b>14</b>	70

Factors affecting tax charge for the period

Excess/(shortfall) of income over expenditure before tax	6,014	(7,610)	5,125	(6,240)	889	(1,370)
Multiplied by the standard rate of tax 30% (2007 30%)	1,805	(2,283)	1,538	(1,872)	267	(411)
Income not assessable for tax purposes	(978)	2,558	(724)	2,077	(254)	481
Unrealised gains/(losses) on investments revalued every year	58	(22)	23	23	35	(45)
	<b>885</b>	253	<b>837</b>	228	<b>48</b>	25

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



## 9. Deferred tax

	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
<b>Recognised</b>						
Recognised deferred tax liability at 21 February 2007	(178)	(156)	(70)	(93)	(108)	(63)
Recognised deferred tax movement	60	(22)	24	23	36	(45)
<i>Recognised deferred tax liability at 20 February 2008</i>	<b>(118)</b>	(178)	<b>(46)</b>	(70)	<b>(72)</b>	(108)
Unrealised gains on investments revalued every year	(118)	(178)	(46)	(70)	(72)	(108)

Tax losses are held on the tax capital account in respect of unrealised losses on the investment portfolio. These losses are only relievable against profits from other items on the tax capital account and consequently no deferred tax asset has been recognised

The Chancellor of the Exchequer, in his budgeted statement on 21 March 2007, announced a change in the standard rate of UK corporation tax from 30% to 28% with effect from 1 April 2008. This proposed change is subject to enactment and due to the nature of this event it is non-adjusting. The financial impact, calculated by applying the 28% rate to the year ended 20 February 2008 deferred tax figures, would be that the deferred tax liability would decrease by \$7k.

## 10. Other financial investments

	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
<i>At market value</i>						
Debt securities and other fixed-income securities	31,079	21,809	30,217	20,756	862	1,053
Shares and other variable-yield securities and unit trusts	1,442	785	-	-	1,442	785
<i>Total investments at market value</i>	<b>32,521</b>	22,594	<b>30,217</b>	20,756	<b>2,304</b>	1,838
<i>At cost</i>						
Debt securities and other fixed-income securities	30,790	21,350	29,985	20,368	805	982
Shares and other variable-yield securities and unit trusts	1,096	436	-	-	1,096	436
<i>Total investments at cost</i>	<b>31,886</b>	21,786	<b>29,985</b>	20,368	<b>1,901</b>	1,418
<i>Included in the carrying values above are amounts in respect of listed investments as follows:</i>						
Debt securities and other fixed-income securities	9,024	4,254	8,436	3,458	588	796
Shares and other variable-yield securities and units in unit trusts	742	-	-	-	742	-
<i>Total listed investments</i>	<b>9,766</b>	4,254	<b>8,436</b>	3,458	<b>1,330</b>	796

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. 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
<i>Open years</i>						
Claims	39,440	35,726	36,808	35,555	2,632	171
Reinsurance recoveries	(35,615)	(32,463)	(33,247)	(32,309)	(2,368)	(154)
<i>Net claims provision for open years</i>	<b>3,825</b>	3,263	<b>3,561</b>	3,246	<b>264</b>	17
<i>Closed years</i>						
Claims	53,890	46,716	53,452	46,281	438	435
Reinsurance recoveries	(52,056)	(46,124)	(51,659)	(45,692)	(397)	(432)
<i>Net claims provision for closed years</i>	<b>1,834</b>	592	<b>1,793</b>	589	<b>41</b>	3
<i>Total</i>						
Claims	93,330	82,442	90,260	81,836	3,070	606
Reinsurance recoveries	(87,671)	(78,587)	(84,906)	(78,001)	(2,765)	(586)
<i>Net claims provision</i>	<b>5,659</b>	3,855	<b>5,354</b>	3,835	<b>305</b>	20

12. Debtors arising out of direct insurance operations

	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
Members	18,059	8,427	17,581	8,349	478	78
Intermediaries	4	17	4	17	-	-
Reinsurers	-	19	-	19	-	-
<i>Debtors arising out of direct insurance operations</i>	<b>18,063</b>	8,463	<b>17,585</b>	8,385	<b>478</b>	78

13. Contingency reserve

	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
Balance at beginning of year	5,188	13,094	5,563	12,029	(375)	1,065
Transfer from/(to) non-technical account	5,117	(7,906)	4,242	(6,466)	875	(1,440)
<i>Balance on contingency reserve at end of the year</i>	<b>10,305</b>	5,188	<b>9,805</b>	5,563	<b>500</b>	(375)

14. Movement in prior year's 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
<i>(Deterioration)/improvement in respect of prior years</i>	<b>(1,192)</b>	2,821	<b>(1,151)</b>	2,793	<b>(41)</b>	28

## 15. Portfolio investments

	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
Purchase of fixed-income securities	31,766	16,738	31,314	15,221	452	1,517
Purchase of equities	30	24	-	-	30	24
Sale of fixed-income securities	(22,558)	(21,116)	(22,558)	(20,292)	-	(824)
<i>Net cash flow on portfolio investments</i>	<b>9,238</b>	(4,354)	<b>8,756</b>	(5,071)	<b>482</b>	717

## 16. Movements in cash, portfolio investments and financing

	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
<i>Cash at bank and in hand</i>						
Balance at 21 February 2007	4,674	3,531	3,626	2,112	1,048	1,419
Cash flow	5,591	1,143	5,700	1,514	(109)	(371)
<i>Balance at 20 February 2008</i>	<b>10,265</b>	4,674	<b>9,326</b>	3,626	<b>939</b>	1,048
<i>Fixed-income securities</i>						
Balance at 21 February 2007	21,809	26,347	20,756	26,011	1,053	336
Cash flow	9,208	(4,378)	8,756	(5,071)	452	693
Changes to market value	62	(160)	705	(184)	(643)	24
<i>Balance at 20 February 2008</i>	<b>31,079</b>	21,809	<b>30,217</b>	20,756	<b>862</b>	1,053
<i>Equities</i>						
Balance at 21 February 2007	785	609	-	-	785	609
Cash flow	30	24	-	-	30	24
Changes to market value	627	152	-	-	627	152
<i>Balance at 20 February 2008</i>	<b>1,442</b>	785	-	-	<b>1,442</b>	785

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**17. Reconciliation of operating surplus to net cash flow from operating activities**

	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
Excess/(shortfall) of income over expenditure before tax	6,014	(7,610)	5,125	(6,240)	889	(1,370)
Gains arising on realisation of investments	(959)	(41)	(959)	(41)	-	-
Losses arising on realisation of investments	98	239	98	213	-	26
Unrealised losses/(gains) on revaluation of investments	173	(192)	156	11	17	(203)
(Increase)/decrease in debtors	(19,077)	5,929	(18,611)	5,271	(466)	658
Increase/(decrease) in net claims provision	1,804	(3,055)	1,519	(3,069)	285	14
Increase/(decrease) in creditors	27,098	1,609	27,426	372	(328)	1,237
<i>Net cash flow from operating activities</i>	<b>15,151</b>	<b>(3,121)</b>	<b>14,754</b>	<b>(3,483)</b>	<b>397</b>	<b>362</b>

**18. Rates of exchange**

	2008	2007
<i>The following rates of exchange were applicable to US\$1 at 20 February 2008 (2007)</i>		
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

**19. Ultimate parent undertaking**

The ultimate parent undertaking of the Company is The Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Limited, a company registered in Bermuda. Group accounts are available from the parent undertaking's registered office: Dallas Building, 7 Victoria Street, PO Box HM1743, Hamilton, Bermuda. A parental guarantee exists to ensure that the Company is able to meet its liabilities as they fall due.