ANNUAL REPORT AND ACCOUNTS 2010

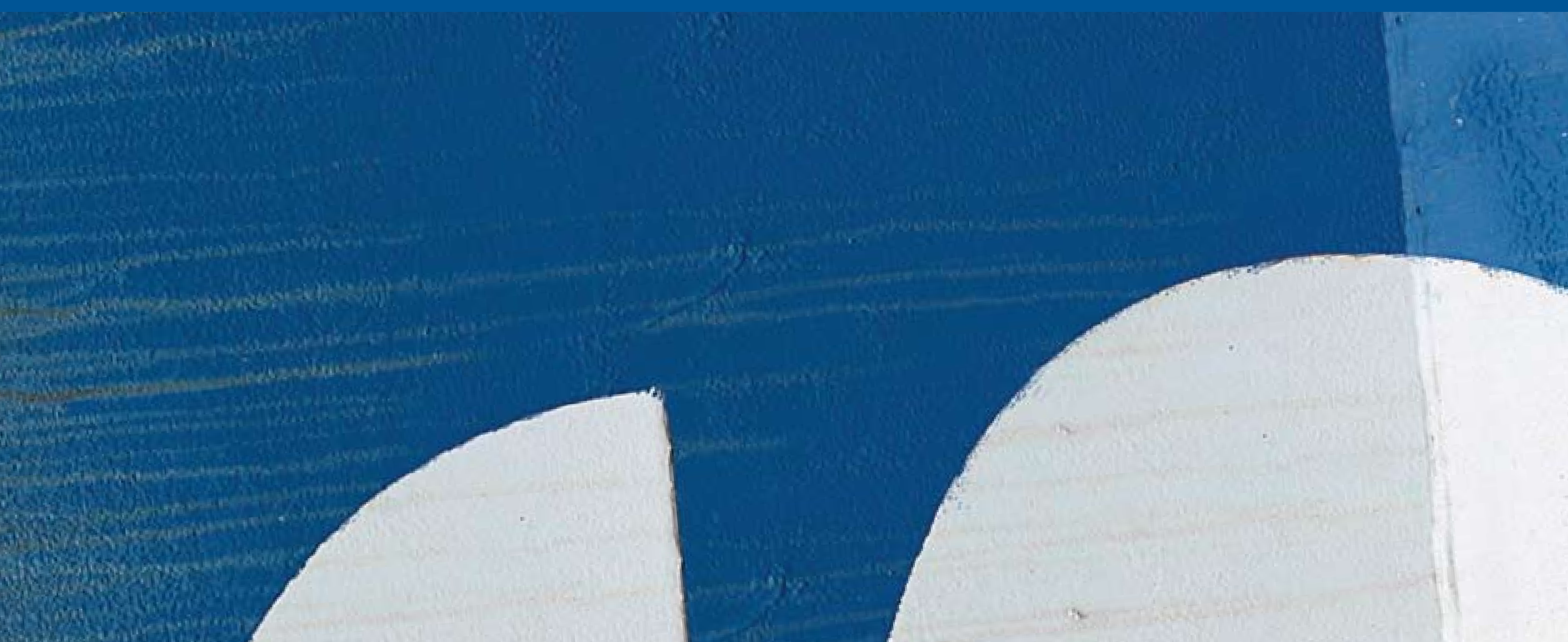
The Standard

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

ANNUAL REPORT AND ACCOUNTS

2010

CONTENTS

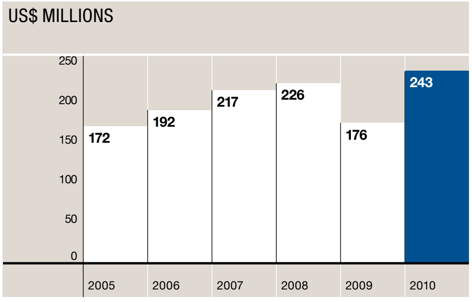


FINANCIAL HIGHLIGHTS 2010
COMBINED P&I AND DEFENCE CLASSES

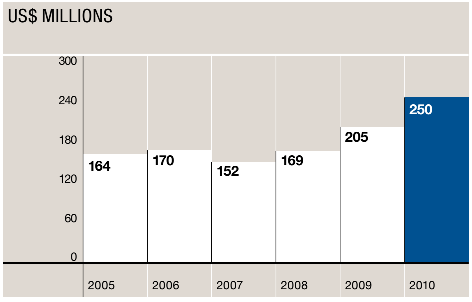
	2010 US$m	2009 US$m
RESULTS FOR THE YEAR ENDED 20 FEBRUARY 2010		
Calls and premiums net of reinsurance	**202**	174
Total claims net of reinsurance and operating expenses	**(201)**	(132)
Balance of technical account for general business	**1**	42
Net investment return	**66**	(92)
Excess/(shortfall) of income over expenditure for the year	**67**	(50)
OUTSTANDING CLAIMS LIABILITIES		
Estimated known outstanding claims net of all recoveries	**292**	282
Incurred but not reported claims (IBNR)	**136**	110
Total estimated claims liabilities	**428**	392
FUNDS AVAILABLE FOR CLAIMS		
Open policy years	**211**	192
Closed policy years	**217**	200
Free reserves	**243**	176
Total balance sheet funds	**671**	568

THE CLUB AT A GLANCE

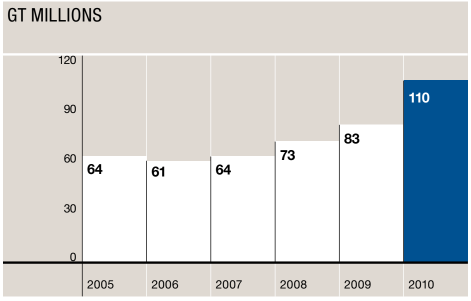
FREE RESERVES



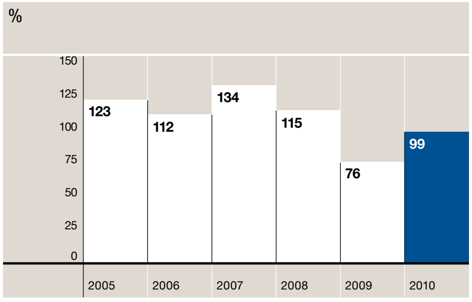
PREMIUM INCOME



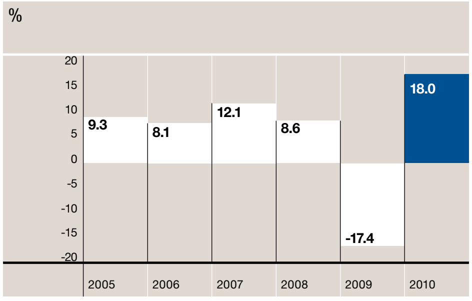
TONNAGE



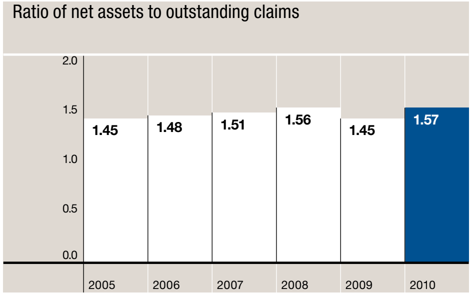
COMBINED RATIO



INVESTMENT RETURN

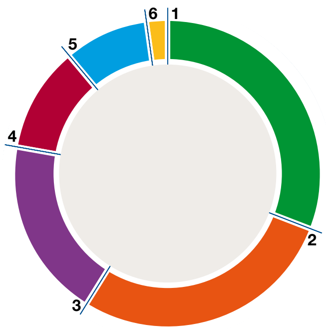


CLAIMS COVER



SHIP TYPE

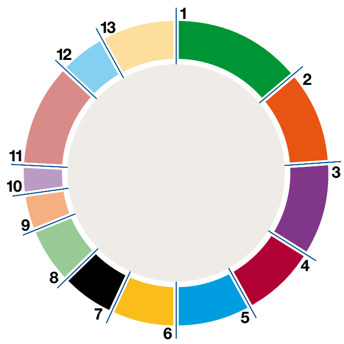
OWNED TONNAGE



1	Tanker	**31%**
2	Container & general cargo	**28%**
3	Dry bulk	**19%**
4	Offshore	**11%**
5	Passenger & ferry	**9%**
6	Other	**2%**

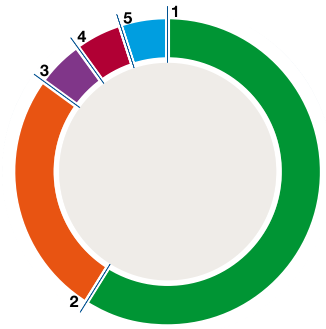
MEMBERS

OWNED TONNAGE



1	USA	**14%**
2	Greece	**10%**
3	Italy	**10%**
4	Canada	**8%**
5	Germany	**8%**
6	United Kingdom	**7%**
7	Japan	**6%**
8	Singapore	**6%**
9	Switzerland	**4%**
10	Republic of Korea	**3%**
11	Rest of Europe	**11%**
12	Rest of Asia	**5%**
13	Rest of World	**8%**

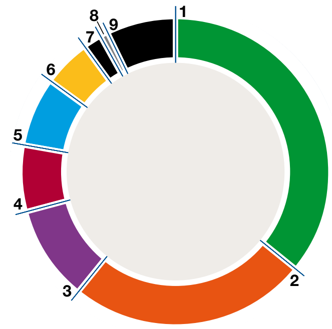
ASSET ALLOCATION



1	Bonds	**59%**
2	Equities	**26%**
3	Alternative assets	**5%**
4	Gold	**5%**
5	Cash	**5%**

CLAIM BY TYPE

2009/10 POLICY YEAR



1	Cargo	**36%**
2	Personal injury	**25%**
3	Collision	**10%**
4	Pollution	**7%**
5	Fines	**7%**
6	Fixed and floating objects	**5%**
7	Damage to hull	**2%**
8	Wreck	**1%**
9	Other	**7%**

CHAIRMAN'S STATEMENT

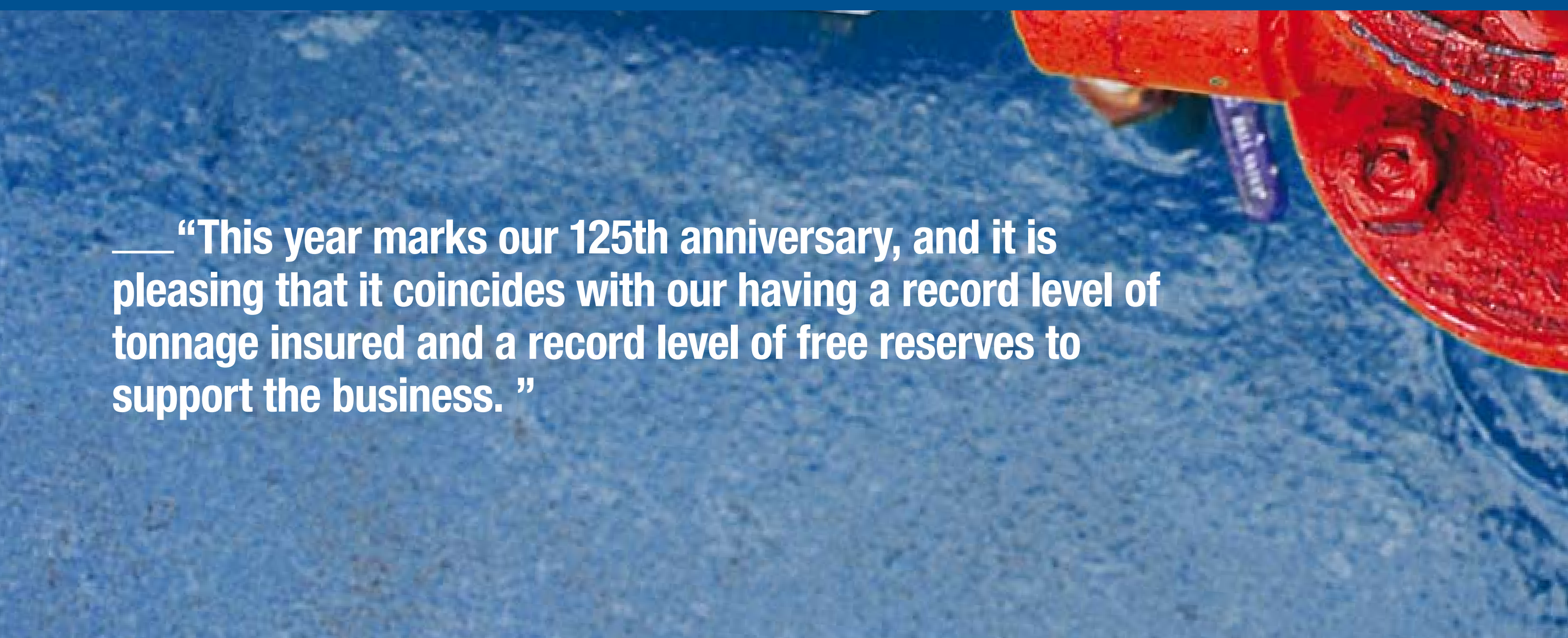
R Menendez Ross
Chairman

We have much to be proud of this year, but, at the same time, we face tough challenges now and ahead. This year marks our 125th anniversary, and it is pleasing that it coincides with our having a record level of tonnage insured and a record level of free reserves to support the business. However, we have to operate within an increasingly rigorous regulatory environment and work towards a new, tougher solvency regime.

The club was founded in 1885 in the north-east of England. The club has been a mid-sized player in the P&I market throughout much of its history, but has matured into one which has, I believe, earned the respect of its members for the quality of its service and for its financial standing. We will never be complacent either about the P&I industry generally or about our place in it, and we continuously strive to perform better each year than the year before. I believe that we are well-placed to meet the challenges ahead.

The growth in the tonnage insured is evidence that the club is proving attractive to both existing and new members. While pleased at the increased entered tonnage, which gives the club a broader footprint and improves its business and financial flexibility, my fellow directors and I are monitoring closely the club's growth, and are satisfied both that the membership criteria remain robust and that the increased tonnage comes from good shipowners and operators. The growth has come from all sectors of shipping, with the club insuring a widely diversified membership operating across the whole spectrum of shipping activities, well-spread geographically. We aim to offer excellent, specialised technical and legal expertise in the sectors in which our members operate. Given the importance of good service to the club's membership, we are concerned to ensure that service levels are not impacted by the larger membership.

The recovery in our free reserves after the reduction suffered during the financial crisis has been



"This year marks our 125th anniversary, and it is pleasing that it coincides with our having a record level of tonnage insured and a record level of free reserves to support the business. "

principally due to a good investment performance. This has largely been the result of remaining invested, in part, in equities. We did, however, review our investment strategy during the year and reduced the equity exposure in our investment benchmark, as well as including within the benchmark a small allocation to gold and a diversification within our bond holdings to corporate bonds. The purchase of Standard House in London has also given the club a holding in commercial property. Overall, the intention was to reduce risk in the portfolio while retaining a balanced exposure to the various asset classes.

Standard House, which we bought two years ago and have developed over the period since then, is now the home of the managers' London agents. The building is working well and is a fitting place from which to carry out the club's daily administration.

It is not just the investments that have performed well this year. The latest policy year is forecast to produce a small underwriting surplus, and although the combined ratio is not as strong as last year's exceptional result, it is nevertheless a good indicator that the fundamentals of the business remain strong. The other side of the coin is that we have experienced, in the last 12 months or so, more large claims than has historically been the case. These have included several Pool claims, bringing to an end our lucky run, which had led to us building up a large Pool credit. We are now more or less in balance on the Pool. Underlying claims, however, remain stable.

The challenges ahead include aligning ourselves with increased regulatory requirements, which include a more formal approach to corporate governance. I mentioned last year that the board had increased its focus on business risks and risk management; this is a continuing process, and more work is being done this year, with a more formal approach to risk and control issues. The club has operated successfully for many years as a private, albeit regulated, association for shipowners, but now needs to adopt a more modern approach to control and governance. This is partly a matter of formalising how the board already operates and what it does, but will also involve the introduction of revised governance arrangements.

These matters are closely related to Solvency II, the introduction of which is fast approaching. This change to all insurance businesses operating in the European Union is not just concerned with how much money the club needs to hold against its business risks, but impacts every aspect of the way in which the club operates, including in particular the way that risk is approached and the club's governance arrangements. While in themselves the requirements are not extraordinary, the amount of work involved in compliance and proof of compliance is huge and will be a major challenge over the next two years.

Other challenges continue to include the scourge of piracy, where, despite a tougher military response and increased awareness of best practice to avoid seizure, even very large ships are still being captured by pirates in the Somali Basin. World political instability has also manifested itself recently in proposed Iran sanctions legislation, which could have dramatic consequences for shipowners and their insurers, and which is why we have had, with some reluctance, to take steps to safeguard the club from the effects of such legislation.

We were sorry to lose from the board during the year Fred Tsai, Mo Ghannam and Jim Andrasick, and I would like to thank them for their commitment to the club's affairs. We were pleased to welcome Andreas Martinos and we look forward to and will value his contribution in the future.

R Menendez Ross
Chairman
14 May 2010

THE DIRECTORS
2

R Menendez Ross
President and Chairman
Ultrapetrol (Bahamas) Ltd

The Hon Sir John W Swan KBE JP
Vice President
Bermuda

R M Jones
Deputy Chairman
CSL Group Inc

C Peraticos
Deputy Chairman
Pleiades Shipping Agents SA

N Aksoy
Akmar Holding SA

L D'Amato
Fratelli D'Amato SpA

C d'Amico
D'Amico Societa di Navigazione SpA

J Andrasick
Matson Navigation Company Inc
(Resigned 14 May 2010)

T G Bernardino
Loadstar International Shipping Inc

F Blanchelande
SBM Production Contractors

G Bozzini
Saipem SpA

B Chan
Teekay Shipping (Canada) Ltd

R Clarke
British Columbia Ferry Services Inc

P Clerici
Coeclerici SpA

J N Das
The Shipping Corporation of India

M A Ghannam
Qatar Gas Transport Company Ltd (Nakilat)
(Resigned 29 October 2009)

B Harinsuit
The Harinsuit Transport Co Ltd

E L Johnsen
International Shipholding Corporation

D C C Koo
Valles Steamship Co Ltd

A Martinos
Minerva Marine Inc
(Appointed 14 May 2010)

J B Rae-Smith
Swire Pacific Offshore Ltd

J F Reinhart
Maersk Line Ltd

S S Teo
Pacific International Line (Pte) Ltd

W D Thomson
Bermuda

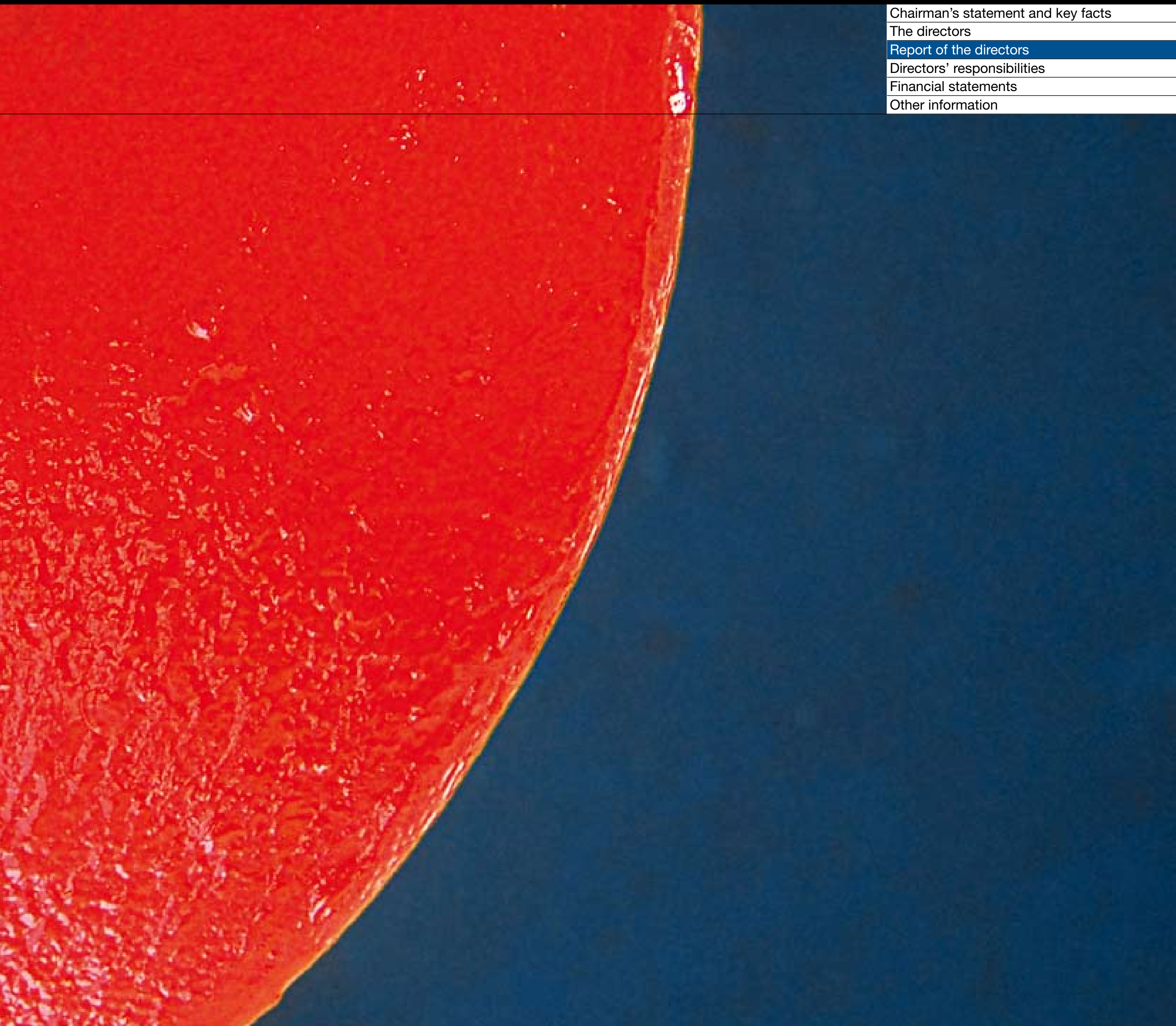
F C P Tsai
Oak Maritime (Canada) Inc
(Resigned 28 July 2009)

A J Groom
Manager

J S M Rowe
Manager

SETTING THE STANDARD FOR SERVICE AND SECURITY

REPORT OF THE DIRECTORS
3



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 2010, there were approximately 110m gross tons of shipping entered in the club, which were owned, operated or chartered by approximately 350 member groups.

DIRECTORS

The directors of the club are shown on page 7 of this report. The board was pleased to welcome Andreas Martinos as a director. As a director appointed during the year, he offers himself for re-election at the AGM. The directors who retire by rotation in accordance with the bye-laws and who, being eligible, have also offered themselves for re-election are Cesare d'Amico, Paolo Clerici, Erik Johnsen, JB Rae-Smith, John Reinhart, Bhumindr Harinsuit, Alistair Groom and John Rowe.

Throughout the year and at the time the report of the directors was approved, the club maintained insurance cover for directors and officers against legal liabilities relating to the club's activities.

MEETINGS OF THE BOARD

The board met on three occasions during the year: in Singapore in October 2009, in Paris in January 2010 and in Capri in May 2010. The board reviewed the club's financial performance, significant claims, new members admitted to the club, new ships attaching, reinsurance arrangements, regulatory and tax matters, industry developments, risk, control and governance matters, 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 club's financial affairs in more detail than the full board can practically do, met on three occasions before each board meeting. 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, there is a surplus of income over expenditure of $67m (2009: $50m deficit). Total reserves available for claims stand at $671m, compared with $568m last year. Total estimated claims liabilities, including the provision for IBNR, net of reinsurance recoveries, amounted to $428m at the year end.

INCOME AND EXPENDITURE ACCOUNT

Revenue from calls, premiums and releases amounted to $250m, compared with $205m in the previous year. Paid claims, net of reinsurance recoveries, amounted to $148m, compared with $125m in the previous year. Pool and reinsurance recoveries amounted to $60m, compared with $28m 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 2010 is 13.3%. This has reduced from 13.6% last year. The ratio has been calculated in accordance with the Schedule and Guidelines issued by the International Group pursuant to the International Group Agreement 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 $671m at 20 February 2010, compared with $568m 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 2007/08 policy year at its meeting on 14 May 2010 on the basis of the financial position at 20 February 2010. The total open policy year balance at 20 February 2010 amounted to $203m after closure of the 2007/08 policy year. Included in this balance are estimated reinsurance recoveries of $70m. The estimate of net outstanding claims liabilities for the closed years amounted to $213m (including liabilities for the 2007/08 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 $176m last year to $243m at the year end, reflecting the surplus on the income and expenditure account for the year, and in turn reflecting a good investment return, in addition to an underwriting surplus of $1m.

It is the intention of the board that the free reserves be available to be used for a number of purposes, including absorbing the impact of financial risks, deterioration beyond the IBNR allowed for in closed years, contributing towards catastrophe claims and smoothing out the financial performance between policy years. The board is mindful of the level of free reserves required to meet regulatory solvency requirements and to maintain adequate capital to allow the club to operate prudently. The board will ensure that the reserves are maintained at a level that satisfies the required level of solvency, and at a level that the board believes provides adequate cover for unexpected liabilities.

The board recognises the need to ensure that the free reserves reflect the club's size. The tonnage entered in the club has grown again this year, so an increase in the free reserves is welcome. The board would like to see the free reserves continue to keep pace with growth in the club's business.

As discussed in the operational review, solvency is one of the key current issues, and present and expected solvency rules allow the product of a potential supplementary call to be taken into account for solvency purposes. When reviewing policy year financial results, the board always considers whether a supplementary call is required, but none has been required again this year. The board has previously set guideline tests for when a supplementary call should be levied. These tests relate to the levels of outstanding claims, premium income and claims paid, and the club's reserves have not breached the tests during the year. Regulatory solvency requirements will also govern whether a supplementary call is needed.

RISK MANAGEMENT

The club has in place a risk management policy and a risk management function through which it sets its risk appetite, identifies and evaluates its risks, and formulates and reviews its risk mitigation strategies. The board supervises the club's risk management policy, and its policy is embedded in the management of the club's business.

PRINCIPAL RISKS AND UNCERTAINTIES

The club's principal risks and uncertainties are recorded in the risk register and assigned to various categories in line with those used by the Financial Services Authority (FSA).

These risk categories and how the risks impact on the club are summarised as follows:

Insurance risk: The risk of loss arising from inappropriate underwriting, inadequate pricing or reserve deterioration.

The club is exposed to insurance risk from underwriting inappropriate business or appropriate business in an inappropriate way or with incorrect pricing. This is managed by clear underwriting controls and monitoring for undue concentrations of risk.

Underwriting risk is mitigated by appropriate reinsurance programmes, including the International Group pooling and reinsurance programme and also non-pool and retention reinsurance.

Reserve risk is managed by prompt reserving of potential losses and regular review of individual estimates and overall reserve adequacy.

Credit risk: The risk of a loss occurring owing to the failure of a counterparty to meet its contractual debt obligations.

Counterparties include reinsurers, members, intermediaries and investment counterparties.
The risk of default is mitigated by:

- using only well-rated reinsurers and monitoring their financial condition
- Pooling Agreement provisions which provide security for inter-club obligations
- prompt follow-up of outstanding member premiums and suspension or cancellation of cover
- clear investment rules and counterparty limits

Market risk: The risk of loss occurring from fluctuations in the value or income from investments, including the effects of fluctuations in interest and exchange rates.

The club's investment strategy 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.

There are clear and regularly-reviewed investment rules, and the club manages its investment risk through investing widely and in different asset classes to diversify the overall portfolio, and produce reasonable returns for lower volatility. Currency of investment is matched as far as possible to the profile of liabilities to which the club is exposed. Interest rate risk exposure is measured and controlled through regular consideration of the appropriate duration of the fixed interest part of the portfolio. The club is exposed to equity price fluctuation risk but equities are in principle held only through mutual funds, and the investment rules limit equity exposure.

As reported in the operational review, the investment asset and currency benchmarks have been modified this year to reflect the board's reassessment of investment risk appetite.

Liquidity risk: The risk arising from insufficient financial resources being available to meet liabilities as they fall due.

The club continually monitors its cash and investments to ensure that the club meets its liquidity requirements. Adequate cash holdings are maintained at all times and the club's asset allocation strategy is designed in part to enable the ready availability of funds to meet insurance liabilities as they fall due. The club regularly reviews the time period required to liquidate the entire investment portfolio. Significant gross claim settlements through the International Group Pool and reinsurance arrangements are subject to special settlement provisions that restrict the exposure to the club from funding large claims subject to reinsurance recoveries.

Operational risk: The risk resulting from external events or from the failure or inadequacy of internal processes, systems or controls.

The club has identified its operational risks and has in place appropriate controls to manage and mitigate such risks. In addition to the risk management and compliance function, the internal audit team conducts regular reviews and tests of these controls to ensure their adequacy. The club employs independent third-party managers to run most of its day-to-day activities and requires the managers to maintain adequate errors and omission insurance cover in respect of the services they perform for the club.

Detailed risk disclosures for credit, market and liquidity risk are set in detail in Note 14 to the accounts, starting on page 45 of the financial statements.

SUMMARY OF HIGH-LEVEL CONTROLS

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to board approval and ongoing review by management, risk management and internal audit. Compliance with regulatory and legal requirements, and ethical standards is a high priority for the club, and the compliance and internal audit teams have an important role in this regard. The board is responsible for satisfying itself that a proper internal control framework exists to manage financial risks, and that controls operate effectively.

The club has developed a framework for identifying the risks to which the club is exposed and their impact on economic capital. To assist in this, the club has developed a business model that assesses the capital required to reflect the financial impact of these business risks.

FUTURE OUTLOOK

Although the required levels of solvency are increasing, the club's financial position means that it is satisfactorily 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:

	2010	2009
Tonnage gt m	**110**	83
Gross premium $m	**250**	205
Free reserves $m	**243**	176
Claims cover[1]	**1.57**	1.45
Solvency ratio %[2]	**298**	242
Combined ratio %[3]	**99**	76
Investment return %[4]	**18.0**	–17.4

1. Ratio of net assets to outstanding claims
2. Ratio of capital resources to minimum capital requirement
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. A ratio below 100% indicates an underwriting surplus
4. Return for 12 months to end of February

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. Corporate governance matters are the subject of review this year in order to ensure that the club is operating in a way that reflects good practice and regulatory requirements, and a number of changes are likely to be introduced in this respect.

The principal functions of the board are to govern and direct the club's affairs, to set overall policy and decide upon both general strategic direction and strategy in relation to the chief aspects of the club's operations, to determine the club's risk appetite and tolerance levels, and to direct and oversee the managers and consider reports on all significant aspects of the club's affairs.

The board 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 club's management. 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, and taking account of the level of service provided by the managers.

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 also notes any incidents in which systems have failed or procedures have not been followed, and whether any actual loss was suffered or not. It reviews internal audit reports, including audit plans and audit results. The finance and policy committee 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 or in inappropriate payments. 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 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. Standard House, the club's newly refurbished office building, which accommodates the managers' London operations, incorporates a number of design and other initiatives to reduce that office's environmental impact and carbon footprint. Electronic document management systems have been implemented, which 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.

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 good practice 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 acceptable standards of responsible operation.

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 is committed to treating its members, and other business associates, fairly. The managers have adopted a set of corporate values, which have been communicated to all staff.

MARKET ENVIRONMENT AND BUSINESS PLAN

During the year, the board considered the business plan, which includes an overall review of the club's business and the market in which it operates, and how the club should position itself to continue to prosper. The shape and outlook of the marine insurance market, and the club's position in it, are 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, and new aspects of the shipping business in which to offer insurance, in the interests of the membership, and the board keeps under review all options for the club's future.

UNDERWRITING

Although not as good an overall underwriting result on a financial year basis as last year, the underwriting on a policy year basis continues to show improvement on the previous two policy years at the same time. The combined ratio for the financial year is 99% and on a policy year basis for the 2009/10 year is projected to be 93%.

The 2007/08 policy year was closed at the May 2010 board meeting.

The latest year's claims, which we comment on in more detail below, are higher than in previous years reflecting the increase in the membership and a greater incidence of large claims, including Pool claims. Pool claims as a whole were higher than the year before, contributed to by this club's own claims. However, even with this higher than usual incidence of Pool claims from our members, the club's Pool record is still more or less in balance.

In the older closed years, the club has some exposure to asbestos-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. Work continues to be done on analysing these claims and modelling future costs. In fact, the increase in incurred claims from asbestos-related diseases this year has reduced compared with the previous year, continuing a five-year downwards trend. Although the ultimate cost of these claims remains necessarily uncertain, the modelling continues to suggest that the reserves held are appropriate in the context of likely future liabilities.

The volume of business in the club increased significantly during the year, both from existing members and new members. In addition, chartered business volume was also up, from both new and existing members. The club's underwriting criteria remain as before – with quality of operation being of paramount importance and volume of business much less important. Guideline limits are maintained to ensure a good diversification of risk from different geographical areas, ship types and business types to ensure that there is no excessive risk concentration.

RENEWAL 20 FEBRUARY 2010

Renewal this year was more measured than in recent years, with the premium rates generally requiring less adjustment than in prior years. A 3% general increase was set for P&I risks. This was, however, against a backdrop of continuing difficult shipping markets in certain sectors and fragile world economic conditions.

We were pleased to conclude satisfactory renewals with the membership, with a number of members entering additional tonnage in the club. Some new members joined the club and, with the increased chartered business volume referred to above, the club's entered tonnage stood at another record high level following the renewal this year. The club now has approximately 110 m gross tons entered.

The defence class renewal was based on a 15% general increase in rates and an increase in the standard deductible to reflect the considerable increase in defence class claims experienced in recent years, discussed in more detail below.

SOLVENCY AND CAPITAL MANAGEMENT

As mentioned earlier in this report, the board ensures that sufficient assets are held to meet insurance solvency requirements in all the jurisdictions where the club is established. The principal regulatory jurisdiction is the UK, where the regulator is the Financial Services Authority. The FSA, which, as previously reported, is participating in a major Europe-wide initiative to ensure that all insurance companies hold risk-based capital sufficient to meet all but the most extreme conditions and stay solvent.

Last year, we commented in detail on the way in which European regulators were approaching Solvency II, the central elements of which include:

1. Demonstrating adequate Financial Resources (Pillar 1): this applies to all European insurance companies and considers key quantitative requirements, including own funds, technical provisions and calculation of the Solvency II capital requirements (the Solvency Capital Requirement and Minimum Capital Requirement) through either an approved full or partial internal model or the European standard formula approach. The club is intending to seek approval for a full model.

2. Demonstrating an adequate System of Governance (Pillar 2): including an effective risk management system and prospective risk identification through the Own Risk and Solvency Assessment.

3. Supervisory Review Process: the overall process conducted by the FSA in reviewing insurance and reinsurance undertakings, ensuring compliance with the Directive requirements and identifying those with financial and/or organisational weaknesses susceptible to producing higher risks to policyholders.

4. Public Disclosure and Regulatory Reporting Requirements (Pillar 3).

Solvency II implementation is to be completed and in place by the end of October 2012 and all these aspects are being worked on as a top priority. A great deal of time and resource will be devoted to this project over the next two years.

INVESTMENTS

Following an extremely difficult year for investments in the year to 28 February 2009, the most recent year to 28 February 2010 saw a sharp recovery in the prices of most assets. The club's consolidated P&I and Defence Classes portfolio experienced a strong year, with its assets returning approximately 18% over the year.

Equities started to recover in early March 2009. Compared to end February 2009, US equities were up 50% in price as measured by the S&P 500 index during the one-year period to end February 2010. The club's non-US dollar assets also benefited from currency appreciation as the euro and sterling rose in value against the US dollar. The club increased its allocation to gold, which benefited from a 16% rise in price to $1,108 per oz. The club's investments in alternatives such as hedge funds of funds also experienced a strong year. The dislocations of the 2008 credit crunch created opportunities for specialist hedge fund managers once market liquidity returned in 2009. The one investment category that saw a fall in asset prices was the government bond market, where yields rose as investors shifted assets from the safety of government bonds into other, riskier, higher-returning assets such as equities and corporate bonds. The yield on the US 10-year Treasury bond rose from 3.0% to 3.6%, resulting in a fall in government bond prices.

The experience of the credit crunch and its associated swings in asset prices prompted the club and its managers to re-examine the question of what might be the most appropriate long-term strategic asset allocation as embodied in the benchmark. A study was carried out, which examined the returns that might be expected from different combinations of assets under different market scenarios. In particular, attention was paid to negative market scenarios such as a rerun of the credit crunch. The club decided to adopt, as its long-term strategic asset allocation, a benchmark that should moderate the negative returns during adverse market conditions but still give participation in up-markets. The managers continue to be given discretion to manage within bands around the strategic allocation. Compared to the previous benchmark of 42% equities and 58% bonds, the new benchmark is more conservative in that it is more diversified and the allocation to equities has been reduced. The new benchmark is 42% government bonds, 28% credit (including corporate and government agency bonds), 25% equities and 5% gold. The currency benchmark was also reviewed to ensure that currencies of the club's liabilities are reflected in the currencies of assets held.

The present currency benchmark is 65.5% US dollars, 22% euros, 7% sterling, 5% gold and 0.5% Australian dollars.

As at 28 February 2010, the investment portfolio was allocated approximately as follows:

- sovereign bonds 41%
- credit 18%
- equities 26%
- alternatives 5%
- gold 5%
- cash 5%

Compared to the end of the previous year the most significant differences in asset allocation were the increased allocation to credit to 18% from approximately 5%, the reduction of 11% in sovereign bonds from 52% and the reduction of 7% to alternatives from 12%. The reductions have been distributed to the other asset classes, most notably gold, which have been increased by 3%.

The reason that the change in the portfolio's asset allocation was less dramatic than the change in the benchmark reflects the fact that the board and investment managers had already moved to a more conservative strategy appropriate to the need to defend the club's assets in volatile markets. The retention of a significant exposure to equities and alternatives, in conjunction with the allocation to gold, enabled the club to participate in the recovery in the markets from March 2009.

The club's overall investment assets now include its investment in commercial property, specifically Standard House in London, which is referred to below, but which is outside the investment portfolio discussed above.

STANDARD HOUSE

Last year, the club bought a freehold property in London with a view to housing the managers' London agents. Over the past year, the building, which was originally built around 1929, was significantly structurally modified and completely renovated.
A commercial lease has been entered into between the club's subsidiary formed for the purpose of owning the property and the managers' agents, who moved into the building in January this year. The building, now named Standard House, is located in central London, mid-way between the West End and the City, and close to the Royal Courts of Justice, and is functioning well as an appropriate place for the club's principal administrative centre. The building is included as an investment asset in the financial statements.

THE CLAIMS ENVIRONMENT

The last policy year has seen an increase in both paid and estimated claims in comparison with previous years, but the picture is somewhat distorted by a small number of very large claims. The club has had four Pool claims notified in the year to February 2010, one of which was very substantial but has already been settled and paid. Overall, there have been 11 claims valued at over $1m. The club's share of other clubs' Pool claims is up on the previous year but moderate by recent historical levels.

The continuing trend towards a greater number of larger claims, both within the club's retention and on the Pool, over the last few years was attributed to inflationary pressures created by higher commodity prices and booming economic conditions. However, this has continued even in the economic recession and can perhaps be explained by changes in the claims environment. The greater diversity in shipping activities has resulted in a more volatile risk profile, with casualties occurring due to misuse or over-reliance on increasingly sophisticated ships' equipment in an environment where property damage is more likely to result and have greater financial consequences. For example, there is a far greater risk of damage to subsea pipelines and telecommunication cables as a result of improper anchoring practices, and the zero-tolerance approach adopted by many countries to environmental damage means that even minor pollution incidents can result in substantial fines and compensation. New technology also offers far greater opportunities to perform wreck removal operations even in the most challenging circumstances, but this comes at tremendous cost.

This volatility in claims patterns means that the established principles of limitation of liability provided for by international convention are even more important to the containment of claims costs. There has, however, been an increasing challenge to the right to limit in recent years, particularly in relation to claims involving large bunker spills.

Other trends contributing to higher claims costs are the increased tendency towards the criminalisation of crew following marine casualties and a substantial increase in the level of fines imposed, not only for pollution but all manner of offences involving ship operations.

Along with these emerging claims trends, the club has continued to experience its share of US personal injury exposure in the form of crew claims and injuries involving pilots and others involved in ship operations. The hostile legal environment in the US is well known, with the 'feather-weight' burden of proof imposed on claimants, unpredictable jurors and an aggressive approach to surgical intervention. All of these factors are compounded by difficulties in achieving continuity of crewing due to the union hall recruitment system and the problems associated with an ageing workforce.

The claims environment therefore continues to be volatile and uncertain. The challenge the club faces is to continue to provide 'at cost' insurance in a fast-changing world where shipping, although supported by rapidly developing technologies and embracing increasingly proactive management systems, is increasingly subject to regulation and social responsibility compensation demands.

The club experienced a notable increase in the cost of defence claims following the market upheaval in 2008. In the past year, defence claims activity, while still very high by historic standards, has moderated a little compared with the 2008/09 policy year owing to greater stability in freight markets and lower rates of

insolvency. However, the effects of the world economic downturn continue to create financial tensions in long-term contractual arrangements, whether it be charterparties or newbuilding contracts.

CLUB RETENTION

The individual club retention was increased at 20 February 2010 from $7m to $8m. This increase was the result of discussion within the International Group, during which strong views for both the status quo and an increase were, as usual, articulated. There was ultimately the required majority in favour of a change. The size of the club retention will continue to be kept under review.

THE POOL

The last 12 months saw an increase in the incidence and value of pool claims compared to the previous year. The incidence of pool claims is notoriously difficult to estimate and it is not clear that any conclusion can be drawn from a movement in any one year.

We mentioned last year that the clubs in the International Group had agreed some adjustments to the pooling mechanism in order to speed up the movement of clubs towards a balanced claims position on the Pool. This club had been a significant net payer to the pool over previous years. We also said that we were conscious that clubs that in the past had complained about the fairness of the pool adjustment system had soon themselves experienced heavy pool claims, and that this was either an irony of life or a statistically likely reversion to the norm, or both.

True to that prediction, in the last 12 months, the Standard's position has changed significantly and we have brought four claims to the Pool, with the effect that our contributions to, and claims on, the Pool have now returned to a more or less balanced position.

We believe that it is a strength of the system that clubs are always willing to seek to fine-tune the system to ensure fairness between clubs and to ensure the long-term robustness of the pooling system.

LARGE DEDUCTIBLES

We reported last year that the International Group was currently debating the appropriateness of some members having very large deductibles. The International Group has now agreed guidelines and procedures for the agreement of clubs to deductibles of more than $1m. There is no evidence of any widespread use of high deductibles but we remain of the view that they remain appropriate for a small number of members with certain risk profiles. We think that an inclusive approach where specific cover packages are tailored for different members is fundamentally beneficial to the future of mutuality within the club system.

IGA 2009

In 1999, the International Group Agreement (IGA), which imposes a degree of restriction on price competition, was granted an exemption by the European Commission for 10 years from 20 February 1999. That exemption therefore technically expired on 20 February 2009. However, as we have previously reported, EU rules now no longer require or allow a renewal of the specific exemption, and the International Group has in effect to self-certify that the operation of the market remains similar to that which prevailed in 1999 and that the IGA is essential to support the Pooling Agreement, which in turn allows shipowners to be provided with the very high limits of cover under the International Group system.

There is certainly more competition in the market than there was in 1999, but the P&I market remains essentially unchanged. The International Group's legal advice suggests that there is no reason why for

the foreseeable future the International Group's operations, including the operation of the IGA, should not continue as before.

During the year, the European Commission has sought information from this and other clubs in a fact-finding exercise, in the light of the expiry of the formal exemption in February 2009. Several shipowners have also been asked for information by the Commission.

HYDRA

Hydra was originally established both to provide a structure for retaining more risk in the reinsurance layer and to provide a degree of inter-club financial security for large claims within the Pool.

Hydra has continued to operate satisfactorily during the year. It remains a valuable tool within the club system for retaining risk to the extent appropriate to do so. The 2006 and 2007 years were characterised by a number of large losses, which have shown further deterioration over the last 12 months, although Hydra has benefited from the stop-loss insurance it takes out. In contrast, the 2008 and 2009 years have seen a lower incidence of such large claims, with only one claim currently in the excess of loss layer. For the 2010 year, Hydra is retaining more risk by increasing the deductible on its stop-loss insurance.

THE INTERNATIONAL GROUP REINSURANCE PROGRAMME

The club's reinsurance programme has three elements. 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, and renewal was concluded on what was effectively an expiring basis, with the cost allocated so that there were reductions in reinsurance costs for tankers and passenger ships but an increase for dry cargo ships, reflecting the claims record and risk exposure of these different ship types. While it is always unpalatable for any shipowner to be asked to bear more cost, and the system can never be perfect, the International Group does its very best to ensure fairness between different ship types.

NON-POOL REINSURANCE PROGRAMME

The second element of the club's reinsurance programme is for those claims that fall outside the International 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 International 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 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 element 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 some of the more volatile recent years, and in an environment of greater required solvency levels, reinsurance protection mitigates to some extent the need for solvency capital.

We are very grateful for the support shown to us by our reinsurers and we value highly the relationship that we have with them.

As a general principle, our preference is to buy reinsurance that will respond in the short term – i.e. high-level excess of loss for large claims – rather than covers that will only mature into payable claims from reinsurers in many years' time, such as low-level stop-loss. And, in any event, it is not our approach to rely on reinsurance to compensate for underwriting indiscipline or to allow us to underwrite business that we would otherwise not wish to underwrite.

IRAN SANCTIONS

The International Group has been monitoring current and pending legislation in the US and the UK prohibiting or imposing further sanctions or potential sanctions in relation to dealings with Iran and Iranian entities.

UK law now prohibits the provision of insurance cover to certain Iranian ships. Those clubs that insured those ships terminated their cover during the year. No such ships are currently insured by International Group clubs.

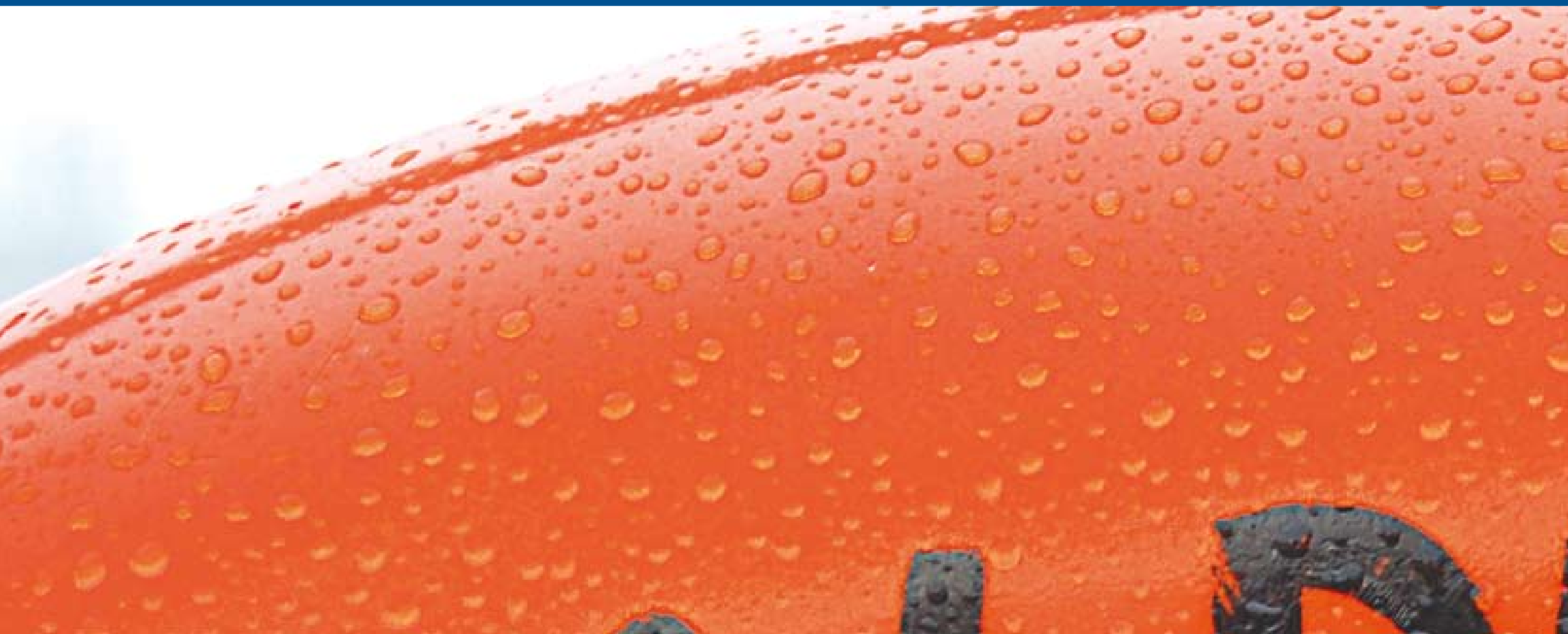
The US Treasury's Office of Foreign Assets Control lists a number of Iranian entities and shipping companies which are 'specially designated'. The effect of that designation is to prohibit dealings by US persons (which would include provision of insurance services) with these companies. Proposed legislation to amend the US Iran Sanctions Act of 1996 may expand economic sanctions extra-territorially against entities, including insurers and the clubs, aiding Iran's trade in refined petroleum products and development of petroleum resources. Potential sanctions for transgression could include barring sanctioned persons or companies from access to US financial institutions and blocking the assets and dollar transactions of an offending insurer located within or routed through the United States.

As discussed in our circular and *Standard Bulletin* in February 2010, the potential danger to the club's operations of such legislation meant that it was prudent to change the club rules so that the club could ensure that it is not subject to such sanctions. This means potentially terminating the cover of any member involved in a prohibited trade.

It is a new challenge for the clubs to react to politically-motivated legislation and this introduces difficult issues of competing legal systems. The International Group is continuing to monitor developments in relation to the legislation.

POLLUTION

Discussions have taken place over the last two years in the International Oil Pollution Compensation Funds (IOPC Funds) and the International Maritime Organization (IMO) on a proposed revision of the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea, 1996 (the HNS Convention), in the form of a Protocol, in order to facilitate the entry into force of an international HNS regime. Following discussions in the IOPC Funds and the IMO, the text of a draft Protocol has been agreed by the IMO Legal Committee and was submitted for adoption at a diplomatic conference at the IMO in April 2010. If adopted, the Protocol is likely to include an increase in the shipowners' limits of



liability in incidents involving packaged shipowners, although the International Group is hopeful that such an increase will be set at a level acceptable to shipowners and insurers.

In September 2009, the State Council of the People's Republic of China (PRC) promulgated new regulations relating to ship-source pollution, which aim to establish comprehensive rules governing oil pollution prevention, response and clean-up within PRC waters. The PRC's Maritime Safety Agency (MSA) is responsible for drafting implementing legislation to give effect to the provisions of the regulations, which cover a wide range of issues, including discharge and reception of oil, pollution response planning and clean-up arrangements, supervision of loading and discharging of hazardous cargo, and penalties for contravention.

The main provision that will impact members trading to the PRC is the requirement for the operators of any ship carrying polluting and hazardous cargo or that is above 10,000 gt to contract with an MSA-approved pollution response company before entering a PRC port. Although the regulations became effective on 1 March 2010, the list of MSA-approved contractors was not published prior to this date and owners were therefore unable to comply with this provision of the regulations. At the time of writing, it is understood that this requirement will not be enforced by the Chinese authorities until the list of approved contractors has been published, following which it is thought likely that owners will be given a grace period to conclude the necessary contracts. It is hoped that approved contractors will agree to use contract wordings that comply with the International Group guidelines for poolable cover, but if not, the club will be able to provide members with a contractual extension to respond to their liabilities under any non-compliant contracts.

Korea has also enacted a Marine Environment Management Act, that appears to incorporate various provisions that may differ from the various international pollution conventions currently in force. The International Group is in the process of obtaining advice from its Korean lawyers as to how the Act may affect the clubs and their members.

EUROPEAN UNION THIRD MARITIME SAFETY PACKAGE

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

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

The package as a whole was adopted by the European Parliament and entered into force on 17 June 2009. Member states now have until 1 January 2012 to implement the directives into their domestic law. The PLR will, however, have direct effect, without the need for any national legislation and shall apply from 31 December 2012 or the entry into force of the Athens Convention in the EU, if earlier.

The Insurance Directive requires owners of ships of 300 gt and above to maintain insurance cover of the type provided by International Group clubs up to the 1996 LLMC limits and to have such cover evidenced by an insurance certificate when entering an EU port or flying the flag of a Member State. Initial discussions with a number of EU Member States indicate that they will enforce the Directive through Port State

Control and will accept a standard P&I certificate of entry as evidence that the necessary insurance cover is in place under the Directive. The International Group is continuing discussions with other EU Member States to ensure that they follow the same approach and that the Directive is implemented in a uniform manner across the EU.

So far as the PLR is concerned, that Member States will, on an individual basis, be able to apply higher limits of liability than those set out in the convention. The Athens Convention itself is not expected to enter into force before 2011. The implementation of the PLR and its relationship with the Athens Convention raises a number of difficult legal and practical issues, including scope of application and issuance of blue cards. The International Group continues to meet with Member States and the IMO with a view to seeking uniformity and harmonisation across the EU.

SHIP QUALITY, OPERATIONAL STANDARDS AND LOSS PREVENTION

The club remains committed to quality over quantity and, even with the increase in entered tonnage seen during the last two years, this remains the case. This policy continues to be the driver in ensuring that quality tonnage operated by owners with high standards is attracted to the club. We aim to attract shipowners to the club whose standards of operation are complementary to those of our existing members and to exclude those who do not meet those standards.

The club continues to develop its robust condition survey programme both on entry and on a routine basis for existing members. In the past year, a total of 300 condition surveys were carried out, including 32 surveys of offshore units, the highest number of FPSOs, jack-up rigs and semi-submersible surveys to date. The data collected is a useful contributor to assessing risk. Approximately 40% of the condition surveys were conducted by in-house surveyors.

Human error continues to be the major factor in the causes of claims. The underlying factors include complacency and a failure to follow procedures. Navigational claims continue to arise from poor navigational practices, including failures of good bridge team management, which can sometimes be attributed to leadership failure on board. Personal injury claims also continue to occur owing to poor compliance with basic safety procedures. All are preventable and often relate to failure on the part of shoreside management to create an effective safety culture on board.

The Member Risk Review programme introduced in 2008 continues to be a major tool in ensuring that shipowners entered in the club have a standard of safety management system acceptable to the club. The programme continues to be beneficial in getting to understand better new members' operations, and provides an excellent opportunity to meet members' technical and operational staff. This strengthens both the underwriting and claims processes. In the last year, a total of 39 member risk reviews were carried out.

The club's safety and loss advisory committee continues to make a strong contribution to the club's risk management and educational work. It is composed of technical representatives from a broad spectrum of the club's members, and we are grateful to them for the time that they devote to the club. The committee has been enhanced this year with a representative from a US member who provides the committee with insight into US personal injury claims, which continue to be significant in number. The committee 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 discussed and appropriate actions agreed, whether this is in the form of consultation with industry organisations, regulators or equipment manufacturers.

During the past year, the issues that continue to dominate the loss prevention agenda are navigational, piracy, personal injury and cargo issues. *Standard Safety* bulletins have been published highlighting issues on navigational matters and pilot ladders. A new guide called *Standard Cargo* has been introduced and the first publication dealt with the carriage of steel cargo. This has received a favourable reception from members and the press. The second *Standard Cargo* covered the safe carriage of yachts. Further *Standard Cargo* guides are planned, including out-of-gauge cargo on container ships, cleaning and preparing cargo holds on bulk carriers, safe carriage of coal and safe carriage of cargo prone to liquefaction. Updating existing *Masters' Guides* continues and further *Masters' Guides* on maintenance of ballast tanks and fuel oil are planned. The series of short high-impact videos on basic personal safety issues, such as tank entry and working aloft, aimed at crew members, which was launched last year, has been a great success. A second series of 10 videos is being worked on for publication later this year.

The managers continue to work with individual members, and groups of members, on ship-board safety and loss prevention through presentations and participation in seminars, often in conjunction with members' own crew education programmes. All the safety and loss prevention team have been engaged with these and have conducted them during the year in the US, Singapore, Japan, Taiwan, Korea, India and Europe.

Bulletins on topical issues such as piracy and environmental changes in the United States have been published on the club website, www.standard-club.com.

STANDARD OFFSHORE

The club's membership in this sector has continued to increase steadily despite increased competition in the market leading to pressure on rates. During the year, the club took on a number of new offshore accounts in addition to acquiring new tonnage through organic growth in existing fleets. The co-operation with Vega has successfully raised the club's profile in the Nordic region, as a result of which Standard Offshore has gained several high-calibre new members.

Windstorm losses have been an issue for our reinsurers and therefore the club continues to take a highly cautious approach to underwriting business in the Gulf of Mexico.

The year has seen greatly increased activity in the area of contract review, with an increase of around 30% in the number of offshore contracts presented to the club for comment in the year from February 2009. This is one of the main areas where we believe we can add value by reviewing contracts in order to establish whether the club can cover the member's contractual liabilities under his existing P&I entry, and we continue intensive training of the staff working in this area to ensure that they are able to meet members' expectations.

The club's Offshore Forums have become popular industry events, with both the latest London and Singapore Forums attracting their biggest-ever audiences. For the first time, the club held an Offshore Forum in Houston targeted at the oil company market. This took place in April 2009 and

was well received by the local market. The club has also provided speakers for several industry conferences.

The club produces a special edition of the *Standard Bulletin* once a year dedicated to this sector of the business, and the feedback from these is always positive. We believe that it is one of very few publications, if not the only publication, dealing specifically with insurance and legal issues relevant to shipowners operating in the offshore market.

STANDARD OFFSHORE RULES

Following the introduction of the club's modernised P&I rules in February 2009, it was decided to produce a new set of Offshore P&I rules specifically designed for members in the offshore oil and gas industry who operate FPSOs and drilling rigs. Previously, P&I cover for these units was given on the basis of the Standard Offshore Conditions (SOC), which backed by the club's non-pool reinsurance programme, provided cover for a number of offshore-type risks that are excluded from normal P&I cover. However, the SOC did not provide stand-alone cover and had to be read in conjunction with the P&I rules for their full terms and effect.

From 20 February 2010, the SOC has been replaced with new Standard Offshore P&I rules, which are a separate set of rules containing in one document all the relevant cover and insurance provisions for members operating offshore units. They have been produced specifically to make the provision of cover clearer, not to alter the extent of cover given.

The new Offshore rules have been well received by both members and brokers as a further reflection of the club's expertise in and long-term commitment to underwriting business in this sector.

STANDARD ASIA

Standard Asia continues to be a great success and the club's Asian business has increased again this year. The increase in offshore energy business in Singapore has continued, and as the club specialises in this class of business, it is well placed to benefit from this activity. We are delighted at the support that Standard Asia has received, not just from members and their brokers, but also from the Singaporean authorities, who give tremendous support and encouragement to the maritime industry. In October, Standard Asia won the 'Marine Insurance' award at the Lloyd's List Asia Awards 2009. This was in recognition of the service Standard Asia has provided to the maritime sector in Singapore over the past 10 years.

STANDARD EUROPE

An increasing number of members are entered in Standard Europe, which is controlled by Standard Bermuda, with their financial results being consolidated. Standard Europe, being incorporated in the EU, is an effective vehicle for those EU-based members who need to be insured with an EU insurer, and also for those from other domiciles, such as the United States, where tax treaties make it more cost-effective for members to be insured by an EU insurer.

TS21

This year marks the 10th anniversary of our joint venture with Tokio Marine and Nichido Fire. The co-operation continues to develop well. We have added more tonnage to the club at each renewal since the joint venture began, and we value both the members who have joined the club through this arrangement and our relationship with Tokio Marine. 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 it.

MEMBER SERVICE

The board believes that good-quality service lies at the heart of the club's success. Members are looked after by dedicated teams whose responsibilities include underwriting, claims management, documentation and credit control. These teams are able to give members the focused and personal attention that ensures an individually-tailored solution-based approach is brought to members' insurance requirements. The managers' network of offices in London, Bermuda, New York, Singapore, Piraeus and Tokyo are integrated into the management structure and provide on-the-spot service delivery. High-quality professional skills and competencies are essential to providing the top-quality service that members expect. The board is committed to ensuring that appropriately skilled individuals are employed and retained to support the members, and that training and development is a high priority.

The board also takes care to ensure that members are treated fairly. Close attention is paid to underwriting and claims procedures to ensure fairness between members.

The managers have continued to enhance the club's IT systems during the year. Apart from the transactional requirements of the IT system, the system is crucial to the production of insurance documentation. The managers are conscious that efficient documentation is an essential part of the club's service provision. Certificates were revised in 2009 to enhance their clarity and layout. Continuous system enhancements are made and a new customer relationship system has just been brought on line to ensure that member contact details are maintained accurately and that distribution of email alerts and publications are correct and efficient.

DIRECTORS' RESPONSIBILITIES
4

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 club 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 club 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 club'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 club. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the club, 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 2010 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 its willingness to continue in office as auditor and, accordingly, a resolution to confirm its appointment will be submitted at the Annual General Meeting.

By order of the board
Charles Taylor & Co (Bermuda)
Secretary
14 May 2010

FINANCIAL STATEMENTS 5

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT For the year ended 20 February 2010

		Total		Class 1 – P&I		Class 2 – Defence	
		2010	2009	**2010**	2009	**2010**	2009
	Notes	**US$ 000**	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Technical account – general business							
Income							
Gross premiums written including calls	3	**250,291**	205,065	**240,249**	196,794	**10,042**	8,271
Outward reinsurance premiums	4	**(48,114)**	(31,225)	**(47,070)**	(30,535)	**(1,044)**	(690)
Earned calls, net of reinsurance		**202,177**	173,840	**193,179**	166,259	**8,998**	7,581
Total income		**202,177**	173,840	**193,179**	166,259	**8,998**	7,581
Expenditure							
Claims paid	6	**208,464**	152,595	**199,910**	146,998	**8,554**	5,597
Reinsurers' share	7	**(60,260)**	(27,628)	**(59,436)**	(27,109)	**(824)**	(519)
Net claims paid		**148,204**	124,967	**140,474**	119,889	**7,730**	5,078
Change in provision for claims		**98,311**	(22,951)	**89,575**	(27,628)	**8,736**	4,677
Reinsurers' share		**(62,294)**	12,476	**(53,718)**	15,224	**(8,576)**	(2,748)
Change in net provision for claims		**36,017**	(10,475)	**35,857**	(12,404)	**160**	1,929
Claims incurred, net of reinsurance		**184,221**	114,492	**176,331**	107,485	**7,890**	7,007
Net operating expenses	8	**16,615**	17,490	**16,307**	17,163	**308**	327
Total expenditure		**200,836**	131,982	**192,638**	124,648	**8,198**	7,334
Balance on the technical account for general business		**1,341**	41,858	**541**	41,611	**800**	247
Non-technical account							
Balance on the technical account for general business		**1,341**	41,858	**541**	41,611	**800**	247
Investment income	5	**44,845**	51,384	**42,092**	48,474	**2,753**	2,910
Unrealised gains on investments	5	**38,667**	–	**35,282**	–	**3,385**	–
Investment expenses and charges							
Investment management expenses	5	**(1,799)**	(2,490)	**(1,779)**	(2,467)	**(20)**	(23)
Losses on realisation of investments	5	**(13,027)**	(22,484)	**(11,161)**	(22,045)	**(1,866)**	(439)
Unrealised losses on investments	5	**–**	(108,546)	**–**	(100,306)	**–**	(8,240)
Exchange gains/(losses)		**2,454**	(10,222)	**1,901**	(9,861)	**553**	(361)
Other charges including value adjustments		**(5,799)**	(1,732)	**(5,799)**	(1,732)	**–**	–
Excess/(shortfall) of income over expenditure before tax		**66,682**	(52,232)	**61,077**	(46,326)	**5,605**	(5,906)
Tax credit	9	**267**	568	**133**	561	**134**	7
Excess/(shortfall) of income over expenditure after tax		**66,949**	(51,664)	**61,210**	(45,765)	**5,739**	(5,899)
Minority interest		**186**	1,214	**186**	1,214	**–**	–
Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve		**67,135**	(50,450)	**61,396**	(44,551)	**5,739**	(5,899)

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 36 to 51 form part of the accounts.

CONSOLIDATED BALANCE SHEET
At 20 February 2010

		Total		Class 1 – P&I		Class 2 – Defence	
		2010	2009	**2010**	2009	**2010**	2009
	Notes	**US$ 000**	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Assets							
Investments							
Land and buildings	12	**24,871**	–	**24,871**	–	**–**	–
Other financial investments	13	**532,648**	431,681	**510,551**	409,628	**22,097**	22,053
Reinsurers' share of technical provisions							
Claims outstanding	11	**130,426**	68,132	**117,297**	63,579	**13,129**	4,553
Debtors							
Debtors arising out of direct insurance operations	17	**56,131**	47,562	**55,124**	46,181	**1,007**	1,381
Other debtors	18	**80,499**	76,459	**79,831**	69,741	**668**	6,718
		136,630	124,021	**134,955**	115,922	**1,675**	8,099
Other assets							
Tangible assets	15	**10,540**	27,186	**10,540**	27,186	**–**	–
Cash at bank and in hand		**38,743**	43,190	**36,718**	39,406	**2,025**	3,784
Prepayments and accrued income		**16,765**	18,661	**15,964**	18,088	**801**	573
		66,048	89,037	**63,222**	84,680	**2,826**	4,357
Total assets		**890,623**	712,871	**850,896**	673,809	**39,727**	39,062
Liabilities							
Reserves							
Statutory reserve		**240**	240	**240**	240	**–**	–
Contingency reserve	19	**242,567**	175,432	**222,304**	160,908	**20,263**	14,524
		242,807	175,672	**222,544**	161,148	**20,263**	14,524
Minority interest		**1,268**	1,454	**1,268**	1,454	**–**	–
Technical provisions							
Gross claims outstanding	11	**558,068**	459,757	**533,775**	444,200	**24,293**	15,557
Creditors							
Creditors arising out of direct insurance operations		**18,113**	21,173	**16,582**	20,346	**1,531**	827
Other creditors including taxation		**69,107**	54,287	**69,107**	47,437	**–**	6,850
		87,220	75,460	**85,689**	67,783	**1,531**	7,677
Accruals		**1,253**	217	**1,240**	205	**13**	12
Deferred tax	10	**7**	311	**67**	237	**(60)**	74
Current account between classes		**–**	–	**6,313**	(1,218)	**(6,313)**	1,218
		88,480	75,988	**93,309**	67,007	**(4,829)**	8,981
Total liabilities		**890,623**	712,871	**850,896**	673,809	**39,727**	39,062

The financial statements on pages 32 to 51 were approved by the board of directors on 14 May 2010 and were signed on its behalf by:

R Menendez Ross
Chairman
14 May 2010

The notes on pages 36 to 51 form part of the accounts.

BALANCE SHEET
At 20 February 2010

	Notes	Total 2010 US$ 000	Total 2009 US$ 000	Class 1 – P&I 2010 US$ 000	Class 1 – P&I 2009 US$ 000	Class 2 – Defence 2010 US$ 000	Class 2 – Defence 2009 US$ 000
Assets							
Investments							
Investments in group undertakings	16	**8,650**	8,650	**8,650**	8,650	**–**	–
Other financial investments	13	**12,740**	5,771	**10,972**	4,217	**1,768**	1,554
		21,390	14,421	**19,622**	12,867	**1,768**	1,554
Reinsurers' share of technical provisions							
Claims outstanding	11	**348,019**	296,594	**340,341**	289,904	**7,678**	6,690
Debtors							
Debtors arising out of direct insurance operations	17	**24,859**	21,531	**24,690**	21,198	**169**	333
Amounts due from group undertakings		**21,879**	19,752	**20,807**	19,422	**1,072**	330
Other debtors		**873**	5,586	**673**	5,579	**200**	7
		47,611	46,869	**46,170**	46,199	**1,441**	670
Other assets							
Tangible assets	15	**4,631**	5,353	**4,631**	5,353	**–**	–
Cash at bank and in hand		**9,204**	6,449	**8,651**	6,100	**553**	349
Prepayments and accrued income		**10,087**	10,364	**9,993**	10,202	**94**	162
		23,922	22,166	**23,275**	21,655	**647**	511
Total assets		**440,942**	380,050	**429,408**	370,625	**11,534**	9,425
Liabilities							
Reserves							
Statutory reserve		**240**	240	**240**	240	**–**	–
Contingency reserve	19	**30,460**	28,471	**29,491**	28,041	**969**	430
		30,700	28,711	**29,731**	28,281	**969**	430
Technical provisions							
Gross claims outstanding	11	**375,649**	324,046	**367,576**	316,926	**8,073**	7,120
Creditors							
Creditors arising out of direct insurance operations		**13,965**	14,261	**13,155**	13,786	**810**	475
Other creditors including taxation		**2,958**	2,192	**2,958**	2,100	**–**	92
Amounts due to group undertakings		**17,517**	10,490	**15,739**	9,206	**1,778**	1,284
Deferred tax		**(45)**	249	**59**	231	**(104)**	18
Accruals		**198**	101	**190**	95	**8**	6
		34,593	27,293	**32,101**	25,418	**2,492**	1,875
Total liabilities		**440,942**	380,050	**429,408**	370,625	**11,534**	9,425

The financial statements on pages 32 to 51 were approved by the board of directors on 14 May 2010 and were signed on its behalf by:

R Menendez Ross
Chairman
14 May 2010

The notes on pages 36 to 51 form part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 20 February 2010

		Total		Class 1 – P&I		Class 2 – Defence	
		2010	2009	**2010**	2009	**2010**	2009
	Notes	**US$ 000**	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Net cash flow from operating activities	20	**50,102**	(11,546)	**55,258**	(13,655)	**(5,156)**	2,109
Taxation							
United Kingdom corporation tax paid		**–**	(1,479)	**–**	(1,408)	**–**	(71)
Capital expenditure							
Payments to acquire tangible fixed assets		**(13,117)**	(21,833)	**(13,117)**	(21,833)	**–**	–
Net inflow/(outflow)		**36,985**	(34,858)	**42,141**	(36,896)	**(5,156)**	2,038
Cash flows were invested/(applied) as follows							
Decrease in cash holdings		**(4,447)**	(72,036)	**(2,688)**	(71,955)	**(1,759)**	(81)
Net portfolio investments							
Purchase of fixed income securities		**414,080**	519,781	**389,680**	501,491	**24,400**	18,290
Purchase of equities		**83,059**	76,027	**82,721**	72,220	**338**	3,807
Sale of fixed income securities		**(357,870)**	(466,831)	**(338,095)**	(449,994)	**(19,775)**	(16,837)
Sale of equities		**(97,837)**	(91,799)	**(89,477)**	(88,658)	**(8,360)**	(3,141)
Net cash flow from investing activities		**41,432**	37,178	**44,829**	35,059	**(3,397)**	2,119
Net investment/(application) of cash flows		**36,985**	(34,858)	**42,141**	(36,896)	**(5,156)**	2,038

The notes on pages 36 to 51 form part of the accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution

The club is incorporated in Bermuda as a company limited by guarantee and has a statutory reserve but no share capital. The members of the club 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 club or returned to members.

2. Accounting policies

(a) Basis of preparation and changes in accounting policy

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended in December 2006.

The contingency reserve represents the free reserves of the club and is established in accordance with rule 20.6 of the rules of the club.

Once a year, the directors review and adopt the accounting policies that are most appropriate for the club. A summary of the most important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on adoption of new accounting standards in the year. The club has adopted the amendments to FRS 29 (Financial Instruments: Disclosure), which has impacted the financial statements by requiring greater transparency and guidance through the increase in disclosure requirements concerning fair value measurement and liquidity. Specifically the amendment incorporates a three level fair value measurement hierarchy, requiring greater quantitative disclosure lower down the hierarchy.

(b) Basis of consolidation

The consolidated financial statements include the financial information of the club and its subsidiary undertakings.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

An undertaking is regarded as a subsidiary undertaking if the club has control over its operating and financial policies, generally determined by the ownership of more than 50% of the voting stock of the investee.

Uniform accounting policies are applied to all 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 21, 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 and related expenses.

(f) Reinsurance recoveries

The liabilities of the club are reinsured above certain levels with similar associations under the International Group's Pooling Agreement and with market underwriters. The figures in the consolidated income and expenditure account 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 club. The club 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 club 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 club 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 club 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 club'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 on an accruals basis.

(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 club 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 the realisable value in use, as appropriate.

(k) Investment properties
Investment properties are included in the balance sheet at their open market value at the balance sheet date. Full valuations are made by independent, professionally qualified valuers in the year of acquisition, and therefore once every five years. In the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required. In accordance with SSAP 19, no depreciation or amortisation is provided in respect of investment properties.

(l) Tangible assets
Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 10 year period following installation.

Furniture, fixtures and fittings are written off over a 15 year period following purchase.

Assets in the course of construction are included in the balance sheet at their cost at the balance sheet date. Once completed they are recategorised as investment property and included at their open market value at the balance sheet date.

(m) 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.

(n) General administration expenses
General administration expenses, including managers' remuneration, are included on an accruals basis.

(o) 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.

3. Gross premiums written including calls

	Total		**Class 1 – P&I**		**Class 2 – Defence**	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Estimated total premium, other premiums and releases 2009/10 (2008/09)	**251,102**	203,576	**241,849**	196,146	**9,253**	7,430
Adjustments to previous policy years	**(811)**	1,489	**(1,600)**	648	**789**	841
Total calls and premiums	**250,291**	205,065	**240,249**	196,794	**10,042**	8,271

4. Outward reinsurance premiums

	Total		**Class 1 – P&I**		**Class 2 – Defence**	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
International Group excess of loss	**22,875**	14,642	**22,875**	14,642	**–**	–
Adjustment to prior years	**2,802**	(3,323)	**2,802**	(3,323)	**–**	–
Other premiums	**26,217**	21,872	**25,201**	21,015	**1,016**	857
Adjustment to prior years	**623**	1,488	**435**	1,363	**188**	125
Commissions	**(4,403)**	(3,454)	**(4,243)**	(3,162)	**(160)**	(292)
Reinsurance premiums paid	**48,114**	31,225	**47,070**	30,535	**1,044**	690

5. Investment return

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Investment income						
Income from equities	**2,480**	2,032	**2,382**	1,950	**98**	82
Income from fixed-income securities	**9,302**	8,572	**8,581**	7,978	**721**	594
Deposit interest	**333**	1,993	**319**	1,905	**14**	88
Income from land and buildings	**88**	–	**88**	–	**–**	–
Gains arising on realisation of investments	**32,642**	38,787	**30,722**	36,641	**1,920**	2,146
	44,845	51,384	**42,092**	48,474	**2,753**	2,910
Investment expenses and charges						
Investment management expenses	**(1,799)**	(2,490)	**(1,779)**	(2,467)	**(20)**	(23)
Losses on realisation of investments	**(13,027)**	(22,484)	**(11,161)**	(22,045)	**(1,866)**	(439)
	(14,826)	(24,974)	**(12,940)**	(24,512)	**(1,886)**	(462)
Unrealised gains/(losses) on investments	**38,667**	(108,546)	**35,282**	(100,306)	**3,385**	(8,240)
Total investment return	**68,686**	(82,136)	**64,434**	(76,344)	**4,252**	(5,792)

6. Claims

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Members' claims	**193,382**	136,780	**184,828**	131,183	**8,554**	5,597
Other P&I clubs' pool claims	**15,082**	15,815	**15,082**	15,815	**–**	–
Gross claims paid	**208,464**	152,595	**199,910**	146,998	**8,554**	5,597

7. Reinsurers' share of claims paid

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Claims recoverable from reinsurers	**(16,148)**	(22,425)	**(15,324)**	(21,906)	**(824)**	(519)
Claims recoverable from pool	**(44,112)**	(5,203)	**(44,112)**	(5,203)	**–**	–
Reinsurers' share of claims paid	**(60,260)**	(27,628)	**(59,436)**	(27,109)	**(824)**	(519)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. Net operating expenses

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Acquisition costs						
Management fee	**5,311**	5,527	**5,158**	5,363	**153**	164
General expenses	**1,169**	1,503	**1,167**	1,503	**2**	–
General administration costs						
Management fee	**5,649**	5,751	**5,504**	5,596	**145**	155
General expenses	**2,308**	2,312	**2,305**	2,308	**3**	4
Depreciation	**788**	722	**788**	722	**–**	–
Safety and loss control	**767**	1,030	**767**	1,030	**–**	–
Directors' fees	**286**	263	**286**	263	**–**	–
Auditors' remuneration for audit services	**223**	206	**219**	203	**4**	3
Auditors' remuneration for non-audit services	**114**	176	**113**	175	**1**	1
Net operating expenses	**16,615**	17,490	**16,307**	17,163	**308**	327

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	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Audit services						
Fees payable to the club's auditor for the audit of the parent company and consolidated accounts	**94**	87	**91**	85	**3**	2
The audit of the club's subsidiaries, pursuant to legislation	**104**	84	**103**	83	**1**	1
Non-audit services						
Fees payable to the club's auditor and its associates for other services:						
(a) Other services pursuant to legislation, including the audit of the regulatory return	**42**	17	**41**	16	**1**	1
(b) Tax services	**61**	159	**61**	159	**–**	–
	301	347	**296**	343	**5**	4
Other auditors	**36**	35	**36**	35	**–**	–

9. Tax credit

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Analysis of credit in the period						
Current tax						
Corporation tax at 28% (2009 28%)	**26**	15	**26**	15	**–**	–
Prior year						
Under/(over) provision for prior years	**13**	(467)	**13**	(458)	**–**	(9)
Deferred tax						
Origination and reversal of timing differences	**(306)**	(116)	**(172)**	(118)	**(134)**	2
	(267)	(568)	**(133)**	(561)	**(134)**	(7)
Factors affecting tax credit for the period						
Excess/(shortfall) of income over expenditure before tax	**66,682**	(52,232)	**61,077**	(46,326)	**5,605**	(5,906)
Multiplied by the standard rate of tax at 28% (2009 28%)	**18,671**	(14,625)	**17,102**	(12,971)	**1,569**	(1,654)
(Income)/expenses not assessable for tax purposes	**(18,127)**	13,908	**(16,697)**	12,506	**(1,430)**	1,402
Unrealised gains spread for tax purposes	**61**	72	**45**	56	**16**	16
Tax losses carried forward	**–**	660	**–**	424	**–**	236
Tax losses utilised	**(579)**	–	**(424)**	–	**(155)**	–
Prior year tax charge/(credit)	**13**	(467)	**13**	(458)	**–**	(9)
Current tax	**39**	(452)	**39**	(443)	**–**	(9)

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Deferred tax

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Unrecognised						
Unrecognised deferred tax asset at 21 February 2009	**660**	–	**424**	–	**236**	–
Unrecognised deferred tax movement	**(660)**	660	**(424)**	424	**(236)**	236
Unrecognised deferred tax asset as at 20 February 2010	**–**	660	**–**	424	**–**	236
Tax losses carried forward	**–**	660	**–**	424	**–**	236
	–	660	**–**	424	**–**	236

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Recognised						
Recognised deferred tax liability at 21 February 2009	**(311)**	(428)	**(237)**	(356)	**(74)**	(72)
Recognised deferred tax movement	**304**	117	**170**	119	**134**	(2)
Recognised deferred tax liability as at 20 February 2010	**(7)**	(311)	**(67)**	(237)	**60**	(74)
Unrealised gains on investments revalued every year	**(7)**	(311)	**(67)**	(237)	**60**	(74)
Timing differences	**–**	–	**–**	–	**–**	–
	(7)	(311)	**(67)**	(237)	**60**	(74)

11. Claims outstanding

The board closed the 2007/08 policy year at its meeting on 14 May 2010. The table below provides the position after closure.

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Group						
Open years						
Claims	**289,528**	211,697	**272,871**	201,233	**16,657**	10,464
Reinsurance recoveries	**(78,952)**	(19,785)	**(69,614)**	(17,286)	**(9,338)**	(2,499)
Net claims provision for open years	**210,576**	191,912	**203,257**	183,947	**7,319**	7,965
Closed years						
Claims	**268,540**	248,060	**260,904**	242,967	**7,636**	5,093
Reinsurance recoveries	**(51,474)**	(48,347)	**(47,683)**	(46,293)	**(3,791)**	(2,054)
Net claims provision for closed years	**217,066**	199,713	**213,221**	196,674	**3,845**	3,039
Total						
Claims	**558,068**	459,757	**533,775**	444,200	**24,293**	15,557
Reinsurance recoveries	**(130,426)**	(68,132)	**(117,297)**	(63,579)	**(13,129)**	(4,553)
Net claims provision	**427,642**	391,625	**416,478**	380,621	**11,164**	11,004

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Company						
Open years						
Claims	**162,550**	120,340	**159,166**	117,696	**3,384**	2,644
Reinsurance recoveries						
– external	**(62,398)**	(13,612)	**(60,652)**	(12,852)	**(1,746)**	(760)
– group	**(90,138)**	(96,056)	**(88,663)**	(94,360)	**(1,475)**	(1,696)
Net claims provision for open years	**10,014**	10,672	**9,851**	10,484	**163**	188
Closed years						
Claims	**213,099**	203,706	**208,410**	199,230	**4,689**	4,476
Reinsurance recoveries						
– external	**(36,948)**	(35,910)	**(34,570)**	(33,855)	**(2,378)**	(2,055)
– group	**(158,535)**	(151,016)	**(156,456)**	(148,837)	**(2,079)**	(2,179)
Net claims provision for closed years	**17,616**	16,780	**17,384**	16,538	**232**	242
Total						
Claims	**375,649**	324,046	**367,576**	316,926	**8,073**	7,120
Reinsurance recoveries						
– external	**(99,346)**	(49,522)	**(95,222)**	(46,707)	**(4,124)**	(2,815)
– group	**(248,673)**	(247,072)	**(245,119)**	(243,197)	**(3,554)**	(3,875)
Net claims provision	**27,630**	27,452	**27,235**	27,022	**395**	430

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Investment property

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Additions at cost	**30,809**	–	**30,809**	–	**–**	–
Revaluation deficit (taken to the income and expenditure account)	**(5,938)**	–	**(5,938)**	–	**–**	–
Net book value	**24,871**	–	**24,871**	–	**–**	–

Investment property comprises of the club's freehold premises at Essex Street, London. The property was revalued at 20 February 2010 by Newton Perkins property consultants at £15.9m.

13. Other financial investments

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Group						
At market value						
Debt securities and other fixed-income securities	**329,735**	272,815	**309,630**	257,954	**20,105**	14,861
Shares and other variable-yield securities and units in unit trusts	**202,913**	158,866	**200,921**	151,674	**1,992**	7,192
Total investments at market value	**532,648**	431,681	**510,551**	409,628	**22,097**	22,053
At cost						
Debt securities and other fixed-income securities	**331,133**	279,247	**310,986**	262,921	**20,147**	16,326
Shares and other variable-yield securities and units in unit trusts	**193,239**	183,649	**190,499**	173,747	**2,740**	9,902
Total investments at cost	**524,372**	462,896	**501,485**	436,668	**22,887**	26,228
Company						
At market value						
Debt securities and other fixed-income securities	**10,188**	3,935	**8,481**	2,442	**1,707**	1,493
Shares and other variable-yield securities and units in unit trusts	**2,552**	1,836	**2,491**	1,775	**61**	61
Total investments at market value	**12,740**	5,771	**10,972**	4,217	**1,768**	1,554
At cost						
Debt securities and other fixed-income securities	**10,178**	4,052	**8,459**	2,421	**1,719**	1,631
Shares and other variable-yield securities and units in unit trusts	**2,886**	2,774	**2,386**	2,274	**500**	500
Total investments at cost	**13,064**	6,826	**10,845**	4,695	**2,219**	2,131

14. Management of financial risk

The following table reconciles the balance sheet to the categories used in the group's asset liability management framework:

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Shares and other variable yield securities and units in unit trusts,						
at fair value through profit and loss:						
– listed securities	**166,301**	125,191	**164,966**	122,844	**1,335**	2,347
– unlisted securities	**36,612**	33,675	**35,955**	28,830	**657**	4,845
Derivative financial instruments, at fair value through profit or loss	**64,236**	50,213	**64,236**	43,503	**–**	6,710
Debt securities and other fixed income securities:						
– listed securities	**136,197**	138,721	**125,361**	127,677	**10,836**	11,044
– unlisted securities	**193,538**	134,093	**184,269**	130,277	**9,269**	3,816
Investment property	**24,871**	–	**24,871**	–	**–**	–
Loans and receivables	**71,629**	72,938	**69,981**	71,550	**1,648**	1,388
Reinsurance assets	**131,191**	69,002	**118,035**	64,448	**13,156**	4,554
Other assets	**66,048**	89,038	**63,222**	84,680	**2,826**	4,358
Total assets	**890,623**	712,871	**850,896**	673,809	**39,727**	39,062
Claims outstanding	**558,068**	459,757	**533,775**	444,200	**24,293**	15,557
Financial liabilities under investment contracts	**64,099**	46,487	**64,099**	39,826	**–**	6,661
Provisions for other risks and charges	**7**	311	**67**	237	**(60)**	74
Other liabilities	**24,374**	29,190	**29,143**	26,944	**(4,769)**	2,246
Total liabilities	**646,548**	535,745	**627,084**	511,207	**19,464**	24,538

Financial assets are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Of the $596.9m of financial assets within the table above, $532.1m is classified as level 1, the derivative financial instrument of $64.2m is classified as level 2, and $0.6m (included within unlisted shares and other variable yield securities) as level 3.

All level 1 and 2 financial assets are redeemable within 6 months, except $4.0m of side pocket shares included within shares and other variable yield securities above which are redeemable over a 3 year period. The level 3 asset of $0.6m is frozen with an unknown redemption date.

The definition for fair value estimation is as follows:
Level 1 – Listed quoted prices (unadjusted) in active markets and external broker quotes which are publicly, readily and regularly available on an active market.
Level 2 – Inputs other than quoted prices included within level 1 that are observable, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS 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	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Derivative financial instruments	**64,236**	50,213	**64,236**	43,503	**–**	6,710
Debt securities	**329,735**	272,815	**309,630**	257,954	**20,105**	14,861
Loans and receivables	**71,629**	72,938	**69,981**	71,550	**1,648**	1,388
Assets arising from reinsurance contracts held	**765**	870	**738**	869	**27**	1
Cash at bank and in hand	**38,743**	43,190	**36,718**	39,406	**2,025**	3,784
Total assets bearing credit risk	**505,108**	440,026	**481,303**	413,282	**23,805**	26,744
AAA	**241,184**	254,225	**226,456**	238,474	**14,728**	15,751
AA	**129,696**	46,797	**122,294**	44,444	**7,402**	2,353
A	**61,777**	60,501	**61,777**	53,250	**–**	7,251
BBB	**139**	4,661	**139**	4,661	**–**	–
Below BBB or not rated	**72,312**	73,842	**70,637**	72,453	**1,675**	1,389
Total assets bearing credit risk	**505,108**	440,026	**481,303**	413,282	**23,805**	26,744

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 months or on demand		> 6 months		Total	
	Class 1	Class 2	Class 1	Class 2	**Class 1**	**Class 2**
	US$ 000	US$ 000	US$ 000	US$ 000	**US$ 000**	**US$ 000**
At 20 February 2010						
Financial liabilities under investment contracts	64,099	–	–	–	**64,099**	**–**
Creditors	21,590	1,531	–	–	**21,590**	**1,531**
	85,689	1,531	–	–	**85,689**	**1,531**
At 21 February 2009						
Financial liabilities under investment contracts	39,826	6,661	–	–	39,826	6,661
Creditors	27,957	1,016	–	–	27,957	1,016
	67,783	7,677	–	–	67,783	7,677

15. Tangible assets

	Total		Computer software		Furniture, fixtures and fittings		Assets in the course of construction	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Group								
Cost								
As at 21 February 2009	**29,051**	7,218	**7,218**	7,218	**–**	–	**21,833**	–
Additions	**13,117**	21,833	**–**	–	**5,975**	–	**7,142**	21,833
Currency fluctuation adjustments	**1,834**	–	**–**	–	**–**	–	**1,834**	–
Transfers	**(30,809)**	–	**–**	–	**–**	–	**(30,809)**	–
As at 20 February 2010	**13,193**	29,051	**7,218**	7,218	**5,975**	–	**–**	21,833
Depreciation								
As at 21 February 2009	**1,865**	1,143	**1,865**	1,143	**–**	–	**–**	–
Charge for the year	**788**	722	**722**	722	**66**	–	**–**	–
As at 20 February 2010	**2,653**	1,865	**2,587**	1,865	**66**	–	**–**	–
Net book value	**10,540**	27,186	**4,631**	5,353	**5,909**	–	**–**	21,833
Company								
Cost								
As at 21 February 2009	**7,218**	7,218	**7,218**	7,218	**–**	–	**–**	–
As at 20 February 2010	**7,218**	7,218	**7,218**	7,218	**–**	–	**–**	–
Depreciation								
As at 21 February 2009	**1,865**	1,143	**1,865**	1,143	**–**	–	**–**	–
Charge for the year	**722**	722	**722**	722	**–**	–	**–**	–
As at 20 February 2010	**2,587**	1,865	**2,587**	1,865	**–**	–	**–**	–
Net book value	**4,631**	5,353	**4,631**	5,353	**–**	–	–	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. Investment in group undertakings

	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], incorporated in Bermuda	Ordinary	20 Feb	Reinsurance	100	100
Standard House Limited, incorporated in Bermuda	Ordinary	20 Feb	Property investment	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 2009. 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 2009 to 20 February 2010.
4 The results of Hydra Insurance Company are included up to its most recent year end, 20 February 2010.

All subsidiary undertakings are consolidated in the financial statements.

17. Debtors arising out of direct insurance operations

	Total		Class 1 – P&I		Class 2 – Defence	
	2010 US$ 000	2009 US$ 000	**2010 US$ 000**	2009 US$ 000	**2010 US$ 000**	2009 US$ 000
Group						
Members	**55,334**	46,026	**54,356**	44,722	**978**	1,304
Intermediaries	**32**	666	**30**	590	**2**	76
Reinsurers	**765**	870	**738**	869	**27**	1
Debtors arising out of direct insurance operations	**56,131**	47,562	**55,124**	46,181	**1,007**	1,381
Company						
Members	**24,233**	20,102	**24,076**	19,823	**157**	279
Intermediaries	**23**	639	**22**	586	**1**	53
Reinsurers	**603**	790	**592**	789	**11**	1
Debtors arising out of direct insurance operations	**24,859**	21,531	**24,690**	21,198	**169**	333

18. Other debtors

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Other debtors	**80,499**	76,459	**79,831**	69,741	**668**	6,718

Included in other debtors is $14.0m (2009 $15.6m) being the estimated current value of the net amount expected to be recovered from the club's investment in the Taylor Hedge Fund. The board has taken legal advice which confirms that the assets are recoverable, in the first instance from the administrators of Lehman Bothers who acted as prime brokers to the fund, and failing that from CAPCO, a third party insurer. The ability of CAPCO to respond to any shortfall is being monitored by the board on an ongoing basis.

19. Contingency reserve

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Group						
Balance at beginning of year	**175,432**	225,882	**160,908**	205,459	**14,524**	20,423
Transfer from/(to) non-technical account	**67,135**	(50,450)	**61,396**	(44,551)	**5,739**	(5,899)
Balance on contingency reserve at end of year	**242,567**	175,432	**222,304**	160,908	**20,263**	14,524
Company						
Balance at beginning of year	**28,471**	43,288	**28,041**	42,281	**430**	1,007
Transfer from/(to) non-technical account	**1,989**	(14,817)	**1,450**	(14,240)	**539**	(577)
Balance on contingency reserve at end of year	**30,460**	28,471	**29,491**	28,041	**969**	430

20. Reconciliation of income over expenditure before tax to net cash flow from operating activities

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Excess/(shortfall) of income over expenditure before tax	**66,682**	(52,232)	**61,077**	(46,326)	**5,605**	(5,906)
Gains arising on realisation of investments	**(32,642)**	(38,787)	**(30,722)**	(36,641)	**(1,920)**	(2,146)
Losses arising on realisation of investments	**13,027**	22,484	**11,161**	22,045	**1,866**	439
Unrealised (gains)/losses on revaluation of investments	**(32,868)**	110,278	**(29,483)**	102,038	**(3,385)**	8,240
Depreciation	**788**	722	**788**	722	**–**	–
(Increase)/decrease in debtors	**(15,174)**	4,307	**(15,094)**	12,927	**(80)**	(8,620)
Increase/(decrease) in net claims provision	**36,017**	(10,475)	**35,857**	(12,404)	**160**	1,929
Increase/(decrease) in creditors	**14,272**	(47,843)	**21,674**	(56,016)	**(7,402)**	8,173
Net cash flow from operating activities	**50,102**	(11,546)	**55,258**	(13,655)	**(5,156)**	2,109

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Movement in opening and closing portfolio investments	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Net cash flow for the year	**(4,447)**	(72,036)	**(2,688)**	(71,955)	**(1,759)**	(81)
Portfolio investments	**41,432**	37,178	**44,829**	35,059	**(3,397)**	2,119
Movement arising from cash flows	**36,985**	(34,858)	**42,141**	(36,896)	**(5,156)**	2,038
Change in market value	**84,406**	(76,608)	**80,965**	(70,072)	**3,441**	(6,536)
Total movement in portfolio investments	**121,391**	(111,466)	**123,106**	(106,968)	**(1,715)**	(4,498)
Portfolio investments at 21 February 2009	**474,871**	586,337	**449,034**	556,002	**25,837**	30,335
Portfolio investments at 20 February 2010	**596,262**	474,871	**572,140**	449,034	**24,122**	25,837
Total movement in portfolio investments	**121,391**	(111,466)	**123,106**	(106,968)	**(1,715)**	(4,498)

22. Movements in cash and portfolio investments	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
At 21 February 2009						
Cash at bank and in hand	**43,190**	115,226	**39,406**	111,361	**3,784**	3,865
Investment property	**–**	–	**–**	–	**–**	–
Shares and other variable-yield securities and units in unit trusts	**158,866**	230,173	**151,674**	219,160	**7,192**	11,013
Debt securities and other fixed-income securities	**272,815**	240,938	**257,954**	225,481	**14,861**	15,457
Total balance at 21 February 2009	**474,871**	586,337	**449,034**	556,002	**25,837**	30,335
Cash flow						
Cash at bank and in hand	**(4,447)**	(72,036)	**(2,688)**	(71,955)	**(1,759)**	(81)
Shares and other variable-yield securities and units in unit trusts	**(14,778)**	(15,772)	**(6,756)**	(16,438)	**(8,022)**	666
Debt securities and other fixed-income securities	**56,210**	52,950	**51,585**	51,497	**4,625**	1,453
Cash flow for year	**36,985**	(34,858)	**42,141**	(36,896)	**(5,156)**	2,038
Changes in market value						
Investment property (transferred from assets under construction)	**30,809**	–	**30,809**	–	**–**	–
Investment property (revalued)	**(5,938)**	–	**(5,938)**	–	**–**	–
Shares and other variable-yield securities and units in unit trusts	**58,825**	(55,535)	**56,003**	(51,048)	**2,822**	(4,487)
Debt securities and other fixed-income securities	**710**	(21,073)	**91**	(19,024)	**619**	(2,049)
Changes in market value for year	**84,406**	(76,608)	**80,965**	(70,072)	**3,441**	(6,536)
At 20 February 2010						
Cash at bank and in hand	**38,743**	43,190	**36,718**	39,406	**2,025**	3,784
Investment property	**24,871**	–	**24,871**	–	**–**	–
Shares and other variable-yield securities and units in unit trusts	**202,913**	158,866	**200,921**	151,674	**1,992**	7,192
Debt securities and other fixed-income securities	**329,735**	272,815	**309,630**	257,954	**20,105**	14,861
Total balance at 20 February 2010	**596,262**	474,871	**572,140**	449,034	**24,122**	25,837

23. Movement in prior years' provision for claims outstanding

	Total		Class 1 – P&I		Class 2 – Defence	
	2010	2009	**2010**	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
(Deterioration)/improvement in respect of prior years	**(11,293)**	50,007	**(10,996)**	49,475	**(297)**	532

24. Open forward exchange contracts

The net book cost of forward exchange transactions at the year end amounted to $nil (2009 $nil). The value of these transactions at the year end market rates amounted to $0.1m (2009 $3.7m). These contracts have been entered into to protect the assets of the club. 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.

25. 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 club has provided letters of credit, bail bonds and guarantees which are secured by investments lodged with the issuer amounting to $59m (2009 $75m).

26. Rates of exchange

	2010	2009
The following rates of exchange were applicable to US$1 at 20 February 2010 (2009)		
Australian dollars	**1.13**	1.51
Bermudan dollars	**1.00**	1.00
Canadian dollars	**1.06**	1.24
Euro	**0.73**	0.77
Japanese yen	**90.00**	91.97
Singapore dollars	**1.41**	1.51
Swiss francs	**1.08**	1.16
UK sterling	**0.64**	0.69

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 $416m includes a forecast for IBNR of $125m on open and closed policy years. The known outstanding claims of $291m are net of all reinsurance recoveries.

The board closed the 2007/08 policy year at its meeting on 14 May 2010 on the basis of the financial position as at 20 February 2010. 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 2010			
Total closed policy years	III	213,221	213,221
Open policy years			
2009/10	II	117,532	117,532
2008/09	II	85,725	85,725
Total of open policy years		203,257	203,257
Reserves			
Contingency reserve	III	222,304	–
Statutory reserve		240	–
		222,544	–
Future funds and liabilities		639,022	416,478

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

APPENDIX II (UNAUDITED)

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

		2009 One year from inception US$ 000	2008 Two years from inception US$ 000	2007 Three years from inception US$ 000
At 20 February 2010				
Calls and premiums		241,849	194,513	160,649
Less: claims, reinsurance premiums, administration expenses and tax		(109,772)	(131,781)	(143,767)
		132,077	62,732	16,882
Investment income to date		60,668	(87,376)	27,940
Funds available	**A**	**192,745**	**(24,644)**	**44,822**
Estimated known outstanding claims and forecast of unreported claims		174,033	98,839	52,157
Estimated reinsurance recoveries		(56,501)	(13,114)	(6,696)
	B	**117,532**	**85,725**	**45,461**
Anticipated surplus/(deficit) at closure	A-B	75,213	(110,369)	–
Deficit on closure of 2007/08 year				(639)
Transferred from contingency reserve to 20 February 2009			95,701	2,523
Transferred (to)/from contingency reserve at 20 February 2010		(75,213)	14,668	(1,884)
		–	–	–
Product of a 10% supplementary call		17,951	14,185	–

Notes
Estimated known outstanding claims and the forecast of unreported claims of open years (including the 2007/08 policy year) include pool claims amounting to $41.6m.

Estimated reinsurance recoveries show the reinsurance recoveries to be made on reinsurance contracts net of provision for doubtful recoveries, and include anticipated pool recoveries of $45.8m and anticipated recoveries from excess of loss reinsurers of $30.5m.

Investment income
All investment income received in the year has been allocated to the 2009/10 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	
	2009	2009	**2010**	2009
	US$ 000	US$ 000	**US$ 000**	US$ 000
At 20 February 2010				
Balance available at 20 February 2009 (2008)	**196,674**	209,367	**160,908**	205,459
Transfers on closure of 2007/08 (2006/07) policy year	**45,461**	46,190	**1,884**	10,813
Premium adjustment	**–**	–	**(335)**	(483)
Claims paid net of reinsurance recoveries	**(29,798)**	(46,380)	**–**	–
	212,337	209,177	**162,457**	215,789
Transfer of anticipated surplus/(deficit) on open years	**–**	–	**60,545**	(68,598)
Minority interest	**–**	–	**186**	1,214
Deterioration/(improvement) of claims in closed policy years	**884**	(12,503)	**(884)**	12,503
Balance available at 20 February 2010 (2009)	**213,221**	196,674	**222,304**	160,908

Closed policy years
The balance available for outstanding claims of closed policy years includes a provision for incurred but not reported claims (IBNR) of $31.6m (2009 $30.0m) and is shown net of pool recoveries of $9.4m (2009 $9.0m) and excess of loss recoveries and other non-Group reinsurance recoveries which amount to $31.6m (2009 $28.3m). The balance available including IBNR, includes $27m (2009 $19.5m) in respect of outstanding pool claims.

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited ('the club') for the year ended 20 February 2010 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 29 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the club's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the club's affairs as at 20 February 2010 and of its excess of income over expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Andrew Hill (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

14 May 2010

NOTICE OF ANNUAL GENERAL MEETING

The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited

Notice is hereby given that the 39th Annual General Meeting of the members will be held at the Tucker's Point Hotel, Bermuda, on Friday 8 October 2010 at 9am.

Ordinary business

1) To receive and adopt the Report and Accounts for the year ended 20 February 2010.

2) That A Martinos be elected as a director.

3) That C d'Amico, P Clerici, E Johnsen, JB Rae-Smith, J Reinhart, B Harinsuit, A Groom and J Rowe be re-elected as directors.

4) That PricewaterhouseCoopers LLP be re-appointed as auditors, and to authorise the directors to fix their remuneration.

By order of the board,

Charles Taylor & Co (Bermuda)
Secretary

NOTES

MANAGERS & OFFICERS

Managers
Charles Taylor & Co (Bermuda)

Secretary
Charles Taylor & Co (Bermuda)

Registered office of the club
Burnaby Building
16 Burnaby Street
PO Box HM1743
Hamilton HMGX
Bermuda
Telephone +1 441 292 7655
Facsimile +1 441 292 8992
E-mail p&i.bermuda@ctcplc.com

www.standard-club.com

Managers' agents

London
Charles Taylor & Co Limited
Standard House
12/13 Essex Street
London WC2R 3AA
Telephone +44 20 3320 8888
Facsimile +44 20 3320 8800
E-mail p&i.london@ctcplc.com

Singapore
Charles Taylor Mutual Management (Asia) Pte. Ltd
140 Cecil Street
15-00 PIL Building
Singapore 069540
Telephone +65 6506 2896
Facsimile +65 6221 1082
E-mail p&i.singapore@ctcplc.com

Piraeus
Charles Taylor & Co Ltd
85 Akti Miaouli
Piraeus 185 38 Greece
Telephone +30 210 429 0734
Facsimile +30 210 429 0950
E-mail p&i.piraeus@ctcplc.com

New York
Charles Taylor P&I Management (Americas), Inc
80 Broad Street, 32nd Floor
New York NY10004
Telephone +1 212 809 8085
Facsimile +1 212 968 1978
E-mail p&i.newyork@ctcplc.com

Tokyo
Charles Taylor Consulting (Japan) Ltd
3/Fl., Parkside 7 Bldg
2-10-12 Kanda Tsukasa-Cho
Chiyoda-Ku
Tokyo 101-0048
Telephone +81 3 3255 8640
Facsimile +81 3 3255 8642
E-mail p&i.tokyo@ctcplc.com

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **+44 (0)20 7729 9090 www.emperordesign.co.uk**

CTC
Charles Taylor Consulting

WWW.STANDARD-CLUB.COM