ANNUAL REPORT AND FINANCIAL STATEMENTS 2011

THE STANDARD STEAMSHIP OWNERS' MUTUAL WAR RISKS ASSOCIATION LIMITED

Registered company number 127257

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B N Swire
Chairman
John Swire & Sons Ltd

Rear Admiral Sir J de Halpert, KCVO CB
Corporation of Trinity House

G P Mansbridge
P&O Ferries Ltd

A J Groom
Manager

Registered in England
Company number 127257

NOTICE OF MEETING

To the members of The Standard Steamship Owners' Mutual War Risks Association Limited

Notice is hereby given that the 98th Annual General Meeting of the members will be held at Standard House, 12/13 Essex Street, London WC2R 3AA on Wednesday 16 November 2011.

Business

To reappoint PricewaterhouseCoopers LLP as auditors and to authorise the directors to fix their remuneration. To re-elect the directors who retire in accordance with the Articles of Association.

Any other business.

By order of the board,
Charles Taylor & Co Limited
Company Secretary
10 May 2011

The directors have pleasure in presenting the report and financial statements of the club for the year ended 20 February 2011.

Principal activities
The club's principal activities during the year continued to be the insurance and reinsurance of war and related risks.

Business review of the year
The club remains a member of the Combined Group of War Risks Clubs (CGWRC) which pool claims and purchase reinsurance from the commercial reinsurance market. The club's rates of advance contribution reduced by approximately three percent with effect from 20 February 2010 in line with its reinsurance costs. No new incidents which could give rise to claims were notified to the club during the year. There were no new incidents reported by any of the other clubs in the CGWRC.

As set out in the income and expenditure account, the excess of income over expenditure was £0.316m (2010: £0.339m). Total reserves available for claims stand at £6,615m, compared with £6.299m last year.

The total value of ships entered at the close of the 2010/11 policy year was approximately £7.82 billion (2010: £7.15 billion), of which reinsured Canadian ships represented approximately £4.69 billion (2010: £4.32 billion).

Strategy
The club will continue to pursue its existing activity of providing Protection and Indemnity (P&I) and hull war risks cover for its principally British and Canadian membership. The club will continue to ensure that the retained underwriting risk is kept at a low level by substantially reinsuring all risks.

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 underwriting only specific risks for a well-defined membership.

  Underwriting risk is mitigated by appropriate reinsurance programmes, including the CGWRC pooling and reinsurance programme.

  Reserve risk is managed by prompt reserving of potential losses and review of 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;
- 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:

- 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;
- 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 below, 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 CGWRC 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.

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.

Key performance indicators (KPIs)

The board monitors the progress of the club by reference to the following KPIs:

	2011	2010	
Reserves	**£6.615m**	**£6.299m**	
Solvency ratio	**270.56%**	**250.75%**	**Ratio of capital resources to the Minimum Capital Requirement (MCR)**

Directors

The directors of the club are as shown on page 1 of this report.

Graham Mansbridge retires by rotation in accordance with the Articles of Association and, being eligible, offers himself for re-election.

The club maintains liability insurance for its directors and officers with a cover limit of £5m, which is renewed on an annual basis. The club has also entered into a deed of indemnity with its directors.

Investments

The year end 28 February 2011 was a challenging and volatile twelve months for the investment markets. Equity markets showed a negative return in the first six months of the period, being particularly weak in the second calendar quarter of 2010. However, equity markets recovered strongly in the second six months to post a strong positive return over the 12 months as a whole. Bonds were similarly volatile. For example UK 5 year government bond yields fell from 2.74% at the end of February 2010 to a low of 1.43% in October, only to rise again to 2.47% at the end of the twelve months. Against this background the investment return for the club's portfolio was approximately 8.9% over the year.

A new, more conservative asset allocation strategy was introduced just prior to the start of the reporting period. This strategy ensured that the portfolio was well diversified going into the volatile period of review. The base allocation, around which the managers take investment positions, consists of a 70% allocation to bonds and 30% to equities. The bond allocation is divided further with a 42% allocation to sovereign bonds and 28% to corporate bonds. The neutral currency allocation, which is broadly designed to match the currency allocation of the club's liabilities, is 70% sterling, 20% Canadian dollars and 10% US dollars.

The allocation to corporate bonds in the strategic asset allocation aided the portfolio return relative to both cash and sovereign bonds during the reporting period.

The UK corporate bond market returned 6.7% whereas the UK gilt market returned 5.9%. The portfolio built up a 1.0% allocation to global high yield corporate bonds. The return of this asset class over the period was 8.5% in sterling terms. Corporate bonds out-performed sovereign bonds partly because of the improving outlook for economic growth and partly because of investor concern on the ever-increasing amount of debt being issued by governments. The UK, for example, had a government debt to GDP ratio of 52.1% in the 2008 calendar year. The debt percentage had increased to 76.1% for the 2010 calendar year.

UK equities recovered from a low in early July 2010 to return 17.7% during the reporting period. The equity portfolio has an income bias and is defensive in nature. Exposure to the German Stock Index (DAX) and the Japanese Stock Price Index (TOPIX) was gained through the use of exchange traded funds. Profits were taken on the DAX holding with the holding sold in mid-November 2010. The alternatives holdings within the portfolio are used to diversify risk. The main single holding posted 5.6%. Two absolute return vehicles, which equate to approximately 0.9% of the portfolio, were added.

The portfolio's main non-sterling liability, the Canadian dollar rose against the Sterling by 1.6% whereas the US dollar depreciated by 6.2% during the reporting period.

As at the end of February 2011, the investment portfolio was allocated approximately as follows:

- sovereign bonds 36%
- corporate bonds 24%
- equities 27%
- alternatives 6%
- cash equivalent 7%

The approximate currency allocation at end February was:

- Sterling 62.7%
- Canadian dollar 21.3%
- US dollar 10.0%
- European currencies 1.1%
- Asia Pacific currencies 3.9%
- Brazilian Real 1.0%

Compared to the end of the previous year the most significant changes in asset allocation were the increased allocation to corporate bonds to 24% from approximately 18% and the reduction of 5% in sovereign bonds from 41%. Equities were reduced by 3% to 27% whilst both Alternatives and Cash increased by 1% to 6% and 7% respectively.

Auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their re-appointment will be submitted at the Annual General Meeting.

Statement of directors' responsibilities
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the clubs and of the income and expenditure for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the club's transactions and disclose with reasonable accuracy at any time the financial position of the club and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the club and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the club's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

- 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 2011 of which the auditors are unaware; and

- 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.

By order of the board,
Charles Taylor & Co Limited
Company Secretary
10 May 2011

INDEPENDENT AUDITORS' REPORT

To the members of The Standard Steamship Owners' Mutual War Risks Association Limited

We have audited the financial statements of The Standard Steamship Owners' Mutual War Risks Association Limited (the 'club') for the year ended 20 February 2011 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies 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 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 2011 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 Report of the Directors 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.

Claire Stockhausen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 May 2011

INCOME AND EXPENDITURE ACCOUNT
for the year ended 20 February 2011

	Notes	**2011 £ 000**	2010 £ 000
Technical account - general business			
Earned calls, net of reinsurance			
Gross premiums written	3	**1,045**	1,300
Outward reinsurance premiums	4	**(810)**	(1,259)
Earned calls, net of reinsurance		**235**	41
Total income		**235**	41
Expenditure			
Claims paid		**-**	43
Reinsurers' share		**-**	(43)
Net claims paid		**-**	-
Change in provision for claims		**-**	(167)
Reinsurers' share		**-**	167
Change in net provision for claims		**-**	-
Claims incurred, net of reinsurance		**-**	-
Net operating expenses	5	**284**	289
Total expenditure		**284**	289
Balance on the technical account for general business		**(49)**	(248)
Non-technical account			
Balance on the technical account for general business		**(49)**	(248)
Investment income	6	**405**	480
Investment expenses and charges	6	**(29)**	(20)
Unrealised gains on investments	6	**377**	111
Unrealised losses on investments	6	**(204)**	-
Exchange (losses)/gains		**(23)**	54
Other charges including value adjustments		**(44)**	-
Excess of income over expenditure before taxation		**433**	377
Tax on excess of income over expenditure	7	**(117)**	(38)
Excess of income over expenditure for the financial year transferred to contingency reserve	15	**316**	339

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.
There is no material difference between the excess of income over expenditure before taxation and the excess of income over expenditure for the financial year stated above and their historical cost equivalents.

The notes on pages 12 to 23 form part of the financial statements.

BALANCE SHEET
at 20 February 2011

	Notes	**2011 £ 000**	2010 £ 000
Assets			
Investments			
Other financial investments	9	**6,087**	5,779
Reinsurers' share of technical provisions			
Claims outstanding	12	**-**	-
Debtors			
Debtors arising out of direct insurance operations	13	**42**	215
Other debtors	14	**106**	142
		148	357
Cash at bank and in hand		**599**	401
Prepayments and accrued income		**174**	109
Total assets		**7,008**	6,646
Liabilities			
Reserves			
Contingency reserve	15	**6,615**	6,299
Technical provisions			
Gross claims outstanding	12	**-**	-
Provisions for other risks and charges			
Deferred tax provisions	8	**58**	-
Creditors			
Creditors arising out of direct insurance operations		**-**	1
Other creditors including taxation and social security	11	**59**	91
		59	92
Accruals and deferred income		**276**	255
		335	347
Total liabilities		**7,008**	6,646

The financial statements on pages 8 to 23 were approved by the board on 10 May 2011 and were signed on its behalf by:

Rear Admiral Sir J de Halpert, KCVO CB
Director

The notes on pages 12 to 23 form part of the financial statements.

Registered company number 127257.

	Notes	**2011 £ 000**	2010 £ 000
Net cash flow from operating activities	17	**189**	202
Taxation			
Taxation paid		**(40)**	(155)
Net cash inflow		**149**	47
Cash flows were invested as follows			
Increase in cash holdings	19	**198**	227
Net portfolio investments			
Debt securities and other fixed-income securities	19	**207**	(224)
Shares and other variable-yield securities and unit trusts	19	**(256)**	44
Net cash outflow from investing activities		**(49)**	(180)
Net investment of cash flows		**149**	47

Movement in opening and closing portfolio investments			
Net cash inflow for the year		**198**	227
Portfolio investments	18	**(49)**	(180)
Movement arising from cash flows		**149**	47
Changes in market values and currencies		**357**	391
Total movement in portfolio investments including cash net of financing		**506**	438
Portfolio investments including cash at 21 February 2010		**6,180**	5,742
Portfolio investments including cash at 20 February 2011		**6,686**	6,180

The notes on pages 12 to 23 form part of the financial statements.

1 Constitution

The club is limited by guarantee. 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

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 financial statements are prepared under the historical cost convention, as modified for the revaluation of investment properties and financial assets and liabilities (including derivative instruments) at fair value through income or expenditure.

Regulations require the use of the term 'profit and loss account' as a heading. This is replaced in these financial statements by 'income and expenditure account', consistent with the mutual status of the club.

The contingency reserve represents the free reserves of the club and is established in accordance with rule 32 of the club.

The financial statements are prepared on a going concern basis.

(b) Annual basis of accounting

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

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

(c) Calls and premiums

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

(d) Claims incurred

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

(e) Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the club. 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 club takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurers.

(f) Reinsurance premiums

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

(g) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and gross of imputed tax credits. Interest and expenses are accounted for on an accruals basis. Realised gains and losses on investments carried at market value are calculated as the difference 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.

(h) Investments

Financial assets at fair value through income or expenditure
The club classifies its investments as financial assets at fair value through income or expenditure. As a result, gains and losses are taken to the income and expenditure account, which reflects the management of the portfolio on a fair value basis. Fair values of investments traded in active markets are measured at bid price. Where there is no active market fair value is measured by reference to other factors.

Derivative financial investments
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. The club does not engage in hedge accounting and changes in the fair value of all derivative investments are recognised immediately in the income and expenditure account.

Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable settlement values. Amounts due from members and reinsurers are included in this category and are measured at cost less any provision for impairment in value.

(i) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated at the sterling rate of exchange at the balance sheet date with the resulting difference treated as an exchange gain or loss within the non-technical account.

Revenue transactions in foreign currencies are translated into sterling at the rate applicable for the week in which the transaction took place. Exchange differences are reported in the non-technical account.

Foreign currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been revalued at year-end rates of exchange and the potential profit or loss included in the non-technical account.

(j) General administration expenses

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

(k) Taxation

Taxation provided is that which became chargeable during the year.

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

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

3. Gross premiums written	**2011**	2010
	£ 000	£ 000
Annual contributions	**355**	254
Additional premiums	**690**	1,046
Total gross premiums written including contributions	**1,045**	1,300

4. Outward reinsurance premiums	**2011**	2010
	£ 000	£ 000
Annual premiums	**941**	1,227
Adjustments for previous policy years	**(131)**	32
Reinsurance premiums paid	**810**	1,259

5. Net operating expenses	**2011**	2010
	£ 000	£ 000
Administrative expenses		
Managers' remuneration	**244**	261
General administration costs	**24**	14
Directors' fees	**3**	1
	271	276
During the year the club obtained the following services from the club's auditors at costs as detailed below:		
Audit services		
Fees payable to the club's auditors for the audit of the club:		
Annual report and financial statements	**5**	5
Non-audit services		
Fees payable to the club's auditors for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	**5**	5
Tax services	**3**	3
Net operating expenses	**284**	289

Directors are paid a flat fee with additional attendance fees.

6. Investment return	**2011**	2010
	£ 000	£ 000
Investment income		
Income from equities	**99**	79
Income from fixed-interest securities	**120**	174
Deposit interest	**1**	3
Gains arising on realisation of investments	**185**	224
	405	480
Investment expenses and charges		
Investment management expenses	**(29)**	(20)
Unrealised gains on investments	**377**	111
Unrealised losses on investments	**(204)**	-
Total investment return	**549**	571

7. Tax on excess of income over expenditure	**2011**	2010
	£ 000	£ 000
Analysis of tax charge in the period		
Current UK corporation tax on taxable investment profits	**59**	40
Adjustments in respect of prior periods	**-**	(2)
Total current tax	**59**	38
Deferred tax		
Origination and reversal of timing differences	**58**	-
Total deferred tax (note 8)	**58**	-
Taxation on investment income	**117**	38

Other factors affecting tax charge for the period

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28%). The differences are explained below:

Non-technical account		
Excess of income over expenditure before taxation	**433**	377
Multiplied by the standard rate of corporation tax in the UK at 28% (2010 21% small companies rate)	**121**	79
Small companies rate relief	**(23)**	-
Adjustments to tax charge in respect of previous periods	**-**	(2)
Income not assessable for tax purposes	**19**	(92)
Unrealised (gains)/losses on investments revalued every year	**(58)**	53
Current tax charge for the period	**59**	38

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

Factors affecting current and future tax charges

During the year, as a result of the change in the UK main corporation tax rate from 28% to 26% that is effective from 1 April 2011, the relevant deferred tax balances have been re-measured. This reduction is in addition to the decrease to 27% enacted in the Finance Act 2010.

8. Deferred tax	**2011**	2010
	£ 000	£ 000
Unrecognised		
Unrecognised deferred tax asset at 21 February 2010	**-**	53
Unrecognised deferred tax movement for the year in the income and expenditure account	**-**	(53)
Unrecognised deferred tax asset at 20 February 2011	**-**	-
Recognised		
Recognised deferred tax liability at 21 February 2010	**-**	-
Recognised deferred tax movement for the year in the income and expenditure account (note 7)	**(58)**	-
Recognised deferred tax liability at 20 February 2011	**(58)**	-
Unrealised gains on investments revalued every year	**(58)**	-
	(58)	-

9. Other financial investments	**2011**	2010
	£ 000	£ 000
At market value		
Shares and other variable-yield securities and units in unit trusts	**2,211**	2,238
Debt securities and other fixed-income securities	**3,876**	3,541
Open forward currency contracts	**-**	-
Total investments at market value	**6,087**	5,779
At cost		
Shares and other variable-yield securities and units in unit trusts	**1,821**	1,968
Debt securities and other fixed-income securities	**3,777**	3,495
Total investments at cost	**5,598**	5,463

Included in the carrying values above are amounts in respect of listed investments as follows:

Listed investments		
Shares and other variable-yield securities and units in unit trusts	**568**	1,267
Debt securities and other fixed-income securities	**1,113**	1,109
Total listed investments at market value	**1,681**	2,376
Open forward currency contracts		
Fair value asset	**-**	-
Contract/notional amount	**888**	-

Open forward currency contracts represent potential losses or gains on forward contracts, which have been entered into to protect the assets of the club.

These have been revalued at 20 February 2011 using exchange rates prevailing at that date. 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.

10. Management of financial risk

In addition to the risk management policies set out in the report of the directors, the club adopts the following approaches to financial risk:

Market risk

- Interest rate risk
Interest rate risk arises primarily from investments in fixed interest securities.

Interest rate risk is managed through the clubs investment strategy. Debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds, with the club having defined investment guidelines that limit exposure in such holdings.

At the end of the financial year, 64% of the club's assets were invested in fixed interest assets. The average duration of the fixed income assets is 4.4 years.

The club has no debt liability with interest payments that vary with changes in the interest rate.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest yields would result in additional loss for the club of £0.26m.

- Equity and hedge fund price risk
The club is exposed to equity price risk as a result of its holdings in equity investments and hedge funds. The club has defined investment guidelines that limit exposure in such holdings.

Sensitivity analysis for equity price risk illustrates the effect of changes in equity market indices on the value of the investment portfolio. A 10% increase in equity values would be estimated to have increased the surplus before tax and reserves at the year end by £0.22m.

- Currency risk
The club is exposed to currency risk in respect of liabilities under insurance policies denominated in currencies other than sterling. The most significant currencies to which the club is exposed are US dollars and Canadian dollars. The club seeks to manage this risk by constraining the deviation of the currencies of the assets from the estimated currencies of the liabilities. The club also uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks.

At 20 February 2011, had US dollars strengthened by 10% against sterling with all other variables held constant, the surplus for the year would have been £0.07m higher. Had Canadian dollars strengthened by 10% against the sterling the surplus for the year would have been £0.13m higher.

Credit risk
Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the club is exposed to credit risk are :
- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of claims already paid
- amounts due from members
- counterparty risk with respect to cash and investments

10. Management of financial risk continued

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

	2011	2010
	£ 000	£ 000
Derivative financial instruments	**-**	-
Debt securities	**3,876**	3,541
Loans and receivables	**148**	357
Assets arising from reinsurance contracts held	**-**	-
Cash at bank and in hand	**599**	401
Total assets bearing credit risk	**4,623**	4,299
AAA	**2,435**	2,756
AA	**248**	39
A	**-**	-
BBB	**62**	-
Below BBB or not rated	**1,878**	1,504
Total assets bearing credit risk	**4,623**	4,299

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

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the club is the obligation to pay claims to policy holders as they fall due. The club maintains holdings in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand.

The following table provides a maturity analysis of the club's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

	Short term assets	**Within 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**
As at 20 February 2011						
Shares and other variable-yield securities and units in unit trusts	2,211	-	-	-	-	**2,211**
Debt securities and other fixed-income securities	3,876	-	-	-	-	**3,876**
Forward currency contracts	-	-	-	-	-	**-**
Cash balances	599	-	-	-	-	**599**
Debtors	50	-	-	98	-	**148**
	6,736	**-**	**-**	**98**	**-**	**6,834**
As at 20 February 2010						
Shares and other variable-yield securities and units in unit trusts	2,238	-	-	-	-	2,238
Debt securities and other fixed-income securities	3,541	-	-	-	-	3,541
Forward currency contracts	-	-	-	-	-	-
Cash balances	401	-	-	-	-	401
Debtors	215	-	-	142	-	357
	6,395	-	-	142	-	6,537

10. Management of financial risk continued

The following is an analysis of the estimated timings of net cash flows by financial liability. The timing of cash flows are based on current estimates and historic trends and the actual timings of cash flows may be materially different from those disclosed below :

	Within 1 year £ 000	1-2 years £ 000	2-5 years £ 000	Over 5 years £ 000	Total £ 000
As at 20 February 2011					
Financial liabilities under investment contracts	-	-	-	-	**-**
Creditors	59	-	-	-	**59**
	59	**-**	**-**	**-**	**59**
As at 20 February 2010					
Financial liabilities under investment contracts	-	-	-	-	-
Creditors	92	-	-	-	92
	92	-	-	-	92

Fair value estimations

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows :
Level 1 - Listed quoted prices 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).

The following table presents the assets and liabilities measured at fair value at 20 February 2011 and at 20 February 2010.

Financial assets at fair value through income or expenditure:

	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
As at 20 February 2011				
Shares and other variable-yield securities and units in unit trusts	2,211	-	-	**2,211**
Debt securities and other fixed-income securities	3,876	-	-	**3,876**
Forward currency contracts	-	-	-	**-**
	6,087	**-**	**-**	**6,087**
As at 20 February 2010				
Shares and other variable-yield securities and units in unit trusts	2,238	-	-	2,238
Debt securities and other fixed-income securities	3,541	-	-	3,541
Forward currency contracts	-	-	-	-
	5,779	-	-	5,779

10. Management of financial risk continued

Capital management

The club maintains an efficient capital structure from the use of members' funds (reserves) along with the ability to make unbudgeted calls if required, consistent with the club's risk profile and the regulatory and market requirements of its business.

The club's objectives in managing its capital are :
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to satisfy the requirements of its members and meet regulatory requirements
- to manage exposures to movement in exchange rates
- to retain financial flexibility by maintaining strong liquidity

The club's regulator is the Financial Services Authority (FSA) and the club is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. The club manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. Under the FSA's ICA regime the club is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 per cent confidence level of solvency. Throughout the period the club complied with the FSA's capital requirements and the requirements in the other countries in which it operates.

11. Other creditors including taxation and social security

	2011	2010
	£ 000	£ 000
Corporation tax	**59**	40
Trade creditors	**-**	2
Other creditors	**-**	49
	59	91

12. Claims outstanding

	2011	2010
	£ 000	£ 000
Gross provision	**-**	-
Reinsurance recoveries	**-**	-
Net claims provision	**-**	-

13. Debtors arising out of direct insurance operations

	2011	2010
	£ 000	£ 000
Direct insurance debtors	**42**	215

14. Other debtors	**2011**	2010
	£ 000	£ 000
Other debtors	**106**	142

Included in other debtors is £98,019 (2010: £141,584) being the estimated current value of the amount expected to be recovered from the club's investment in the Taylor Hedge Fund, the assets of which are recoverable in the first instance from the administrators of Lehman Brothers, who acted as prime brokers to the fund, and failing that from CAPCO, a third party insurer.

15. Contingency reserve	**2011**	2010
	£ 000	£ 000
Balance at 21 February 2010	**6,299**	5,960
Excess of income over expenditure for the year	**316**	339
Balance at 20 February 2011	**6,615**	6,299

16. Movement in prior years' provision for claims outstanding

There has been no movement on prior year claims provisions (2010: favourable run-off £167,472).

17. Reconciliation of income over expenditure before taxation to net cash flow from operating activities	**2011**	2010
	£ 000	£ 000
Excess of income over expenditure	**433**	377
Gains arising on realisation of investments	**(185)**	(224)
Unrealised gains on investments	**(173)**	(111)
Decrease in debtors	**100**	48
(Decrease)/increase in creditors	**(30)**	112
Other charges including value adjustments	**44**	-
Net cash flow from operating activities	**189**	202

18. Portfolio investments	**2011**	2010
	£ 000	£ 000
Purchase of debt securities and other fixed-income securities	**7,807**	3,542
Purchase of shares and other variable-yield securities	**2,141**	903
Sale of debt securities and other fixed-income securities	**(7,600)**	(3,766)
Sale of shares and other variable-yield securities	**(2,397)**	(859)
Net cash outflow on portfolio investments	**(49)**	(180)

19. Movements in cash, portfolio investments and financing	**2011**	2010
	£ 000	£ 000
Cash at bank and in hand		
Balance at 21 February 2010	**401**	174
Cash inflow	**198**	227
Balance at 20 February 2011	**599**	401
Fixed income securities		
Balance at 21 February 2010	**3,541**	3,820
Cash inflow/(outflow)	**207**	(224)
Changes in market value and currencies	**128**	(55)
Balance at 20 February 2011	**3,876**	3,541
Equities		
Balance at 21 February 2010	**2,238**	1,748
Cash (outflow)/inflow	**(256)**	44
Changes in market value and currencies	**229**	446
Balance at 20 February 2011	**2,211**	2,238

20. Related party transactions

The club, which is limited by guarantee, has no share capital and is controlled by the members who are also its insureds. All members enter into insurance contracts negotiated with the club's managers in arm's length terms. The transactions are therefore with related parties and are the only transactions between the club and the members. The aggregate of these transactions is disclosed in these financial statements.

Other than one director, who is a director and shareholder of Charles Taylor Consulting plc, the ultimate holding company of the club's managers, Charles Taylor & Co. Limited, all the directors are representatives or agents of member companies and other than the insurance and membership interests of the directors' companies, the directors have no financial interests in the club.