

**TO ALL MEMBERS**

14 May 2010

Dear Sirs

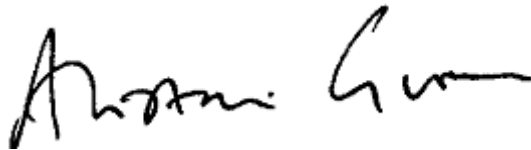
**STANDARD STEAMSHIP OWNERS' PROTECTION & INDEMNITY ASSOCIATION  
(EUROPE) LIMITED  
ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 20 FEBRUARY 2010**

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

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

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

Yours faithfully

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

Alistair Groom  
Chief Executive  
Charles Taylor & Co Ltd

## **DIRECTORS**

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

R M Jones  
CSL International Inc

A J Groom  
Manager

J S M Rowe  
Manager

Registered in England  
Company number 17864

## NOTICE OF MEETING

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

Notice is hereby given that the 126<sup>th</sup> Annual General Meeting of the members will be held in Bermuda, on 08 October 2010 at 9am.

*Business*

To adopt the Report and Accounts.

To reappoint PricewaterhouseCoopers LLP as auditors and to authorise the directors to fix their remuneration.

To re-elect directors who retire in accordance with the Articles of Association.

Any other business.

By order of the board,  
Charles Taylor & Co Limited  
*Secretary*

14 May 2010

The directors have pleasure in presenting their Report and Accounts of the club for the year ended 20 February 2010.

**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.

**Business review**

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

**P&I class**

The estimated total premium for the 2009/10 year amounted to \$96.7m, of which \$32.0m was paid to Standard Reinsurance (Bermuda) Ltd. under the quota-share contract. The combined P&I class position, set out in the accounts of The Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Ltd., shows that a surplus is currently expected for this policy year.

In May this year, the board decided to close the 2007/08 policy year without further call. The members were also advised that no supplementary calls were likely for the 2008/09 or 2009/10 policy years.

**Defence class**

The estimated total premium for the 2009/10 year amounted to \$4.6m, of which \$2.9m was paid to Standard Reinsurance (Bermuda) Ltd. under the quota-share contract. The combined Defence class position, set out in the accounts of The Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Ltd., shows that a surplus is currently expected for this policy year.

In May this year, the board decided to close the 2007/08 policy year without further call. The members were also advised that no supplementary calls were likely for the 2008/09 or 2009/10 policy years.

**Financial instruments**

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

**Principal business risks**

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

## Future outlook

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

## Key performance indicators

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

	2010	2009
<b>Premium \$m</b>	103.3	74.5
<b>Free reserves \$m</b>	42.5	15.7
<b>Claims cover <sup>*1</sup></b>	4.79	2.89
<b>Combined ratio %</b>	44	60

\*1. Ratio of net assets to outstanding claims

## Directors

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

The director retiring by rotation, in accordance with the Articles of Association, is Mr A J Groom.

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

## Auditors

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

By order of the board,  
Charles Taylor & Co Limited  
*Secretary*

14 May 2010

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws 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 club and of the income and expenditure for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 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 the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Statement of disclosure of information to auditors**

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

- 1) so far as each of them are aware, there is no information relevant to the audit of the club's financial statements for the year ended 20 February 2010 of which the auditors are unaware; and
- 2) the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the club's auditors are aware of that information.

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

We have audited the financial statements of The Standard Steamship Owners' Protection & Indemnity Association (Europe) 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 Director's Responsibilities Statement set out on page 5 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.

## INDEPENDENT AUDITORS REPORT CONTINUED

### **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;
- 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



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**INCOME AND EXPENDITURE ACCOUNT**  
for the year ended 20 February 2010

	Notes	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
<b>Technical account - general business</b>							
<b>Income</b>							
Gross premiums written including calls	3	103,266	74,524	98,039	70,896	5,227	3,628
Outward reinsurance premiums	4	(59,438)	(57,441)	(55,388)	(54,599)	(4,050)	(2,842)
Earned calls, net of reinsurance		43,828	17,083	42,651	16,297	1,177	786
<i>Total income</i>		43,828	17,083	42,651	16,297	1,177	786
<b>Expenditure</b>							
Claims paid		53,362	45,210	49,381	43,416	3,981	1,794
Reinsurers' share		(41,347)	(39,456)	(37,977)	(37,889)	(3,370)	(1,567)
Net claims paid		12,015	5,754	11,404	5,527	611	227
Change in provision for claims		36,740	4,098	30,995	67	5,745	4,031
Reinsurers' share		(33,860)	(1,425)	(28,138)	2,354	(5,722)	(3,779)
Change in net provision for claims		2,880	2,673	2,857	2,421	23	252
Claims incurred, net of reinsurance		14,895	8,427	14,261	7,948	634	479
Net operating expenses	5	4,519	1,906	4,395	1,854	124	52
<i>Total expenditure</i>		19,414	10,333	18,656	9,802	758	531
<i>Balance on the technical account for general business</i>		24,414	6,750	23,995	6,495	419	255
<b>Non-technical account</b>							
Balance on the technical account for general business		24,414	6,750	23,995	6,495	419	255
Investment income	6	2,456	1,805	1,692	1,612	764	193
Unrealised gains on investments	6	1,595	-	1,595	-	-	-
Investment expenses and charges	6	(1,379)	(41)	(1,197)	(17)	(182)	(24)
Unrealised losses on investments	6	(300)	(2,857)	-	(2,279)	(300)	(578)
Exchange gains/(losses)		25	(495)	43	(443)	(18)	(52)
Excess/(shortfall) of income over expenditure before tax		26,811	5,162	26,128	5,368	683	(206)
Tax (charge)/credit	7	(17)	281	(29)	255	12	26
<b>Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve</b>		26,794	5,443	26,099	5,623	695	(180)

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

The notes on pages 12 to 20 form part of the accounts.

**BALANCE SHEET**  
at 20 February 2010

	Notes	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
<b>Assets</b>							
<b>Investments</b>							
Other financial investments	9	20,431	20,160	17,734	17,318	2,697	2,842
<b>Reinsurers' share of technical provisions</b>							
Claims outstanding	10	122,956	89,096	110,690	82,552	12,266	6,544
<b>Debtors</b>							
Debtors arising out of direct insurance operations	11	24,492	20,055	23,749	19,322	743	733
Amounts owed by group undertakings		19,785	300	19,770	300	15	-
Other debtors		756	304	288	303	468	1
		45,033	20,659	43,807	19,925	1,226	734
<b>Other assets</b>							
Cash at bank and in hand		4,869	12,101	3,752	10,285	1,117	1,816
Prepayments and accrued income		4,243	4,997	3,771	4,915	472	82
		9,112	17,098	7,523	15,200	1,589	1,898
<i>Total assets</i>		197,532	147,013	179,754	134,995	17,778	12,018
<b>Liabilities</b>							
<b>Reserves</b>							
Contingency reserve	12	42,542	15,748	41,527	15,428	1,015	320
		42,542	15,748	41,527	15,428	1,015	320
<b>Technical provisions</b>							
Gross claims outstanding	10	134,168	97,428	121,322	90,327	12,846	7,101
<b>Creditors</b>							
Creditors arising out of direct insurance operations		2,953	2,738	2,303	2,436	650	302
Other creditors including taxation		24	351	24	254	-	97
		2,977	3,089	2,327	2,690	650	399
Accruals and deferred income		29	42	27	41	2	1
Deferred tax	8	44	56	-	-	44	56
Amounts owed to group undertakings		17,772	30,650	14,546	26,795	3,226	3,855
Current account between classes		-	-	5	(286)	(5)	286
		20,822	33,837	16,905	29,240	3,917	4,597
<i>Total liabilities</i>		197,532	147,013	179,754	134,995	17,778	12,018

The financial statements on pages 9 to 20 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 12 to 20 form part of the accounts.

**CASH FLOW STATEMENT**

for the year ended 20 February 2010

	Notes	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
Net cash flow from operating activities	16	<b>(8,541)</b>	(7,777)	<b>(7,496)</b>	(9,726)	<b>(1,045)</b>	1,949
<b>Taxation</b>							
United Kingdom Corporation Tax paid		-	(663)	-	(628)	-	(35)
Net (outflow)/inflow		<b>(8,541)</b>	(8,440)	<b>(7,496)</b>	(10,354)	<b>(1,045)</b>	1,914
<b>Cash flows were (applied)/invested as follows</b>							
(Decrease)/increase in cash holdings	15	<b>(7,232)</b>	1,836	<b>(6,533)</b>	959	<b>(699)</b>	877
Net portfolio investments							
Fixed-income securities	14	<b>3,085</b>	(10,306)	<b>3,129</b>	(11,313)	<b>(44)</b>	1,007
Equities	14	<b>(4,394)</b>	30	<b>(4,092)</b>	-	<b>(302)</b>	30
Net cash flow from investing activities		<b>(1,309)</b>	(10,276)	<b>(963)</b>	(11,313)	<b>(346)</b>	1,037
Net (application)/investment of cash flows		<b>(8,541)</b>	(8,440)	<b>(7,496)</b>	(10,354)	<b>(1,045)</b>	1,914
<b>Movement in operating and closing portfolio investments</b>							
Net cash (outflow)/inflow for the year	15	<b>(7,232)</b>	1,836	<b>(6,533)</b>	959	<b>(699)</b>	877
Portfolio investments	14	<b>(1,309)</b>	(10,276)	<b>(963)</b>	(11,313)	<b>(346)</b>	1,037
Movement arising from cashflows		<b>(8,541)</b>	(8,440)	<b>(7,496)</b>	(10,354)	<b>(1,045)</b>	1,914
Changes in market values	15	<b>1,580</b>	(2,085)	<b>1,379</b>	(1,586)	<b>201</b>	(499)
<i>Total movement in portfolio investments</i>		<b>(6,961)</b>	(10,525)	<b>(6,117)</b>	(11,940)	<b>(844)</b>	1,415
Portfolio investments at 21 February 2009		<b>32,261</b>	42,786	<b>27,603</b>	39,543	<b>4,658</b>	3,243
Portfolio investments at 20 February 2010		<b>25,300</b>	32,261	<b>21,486</b>	27,603	<b>3,814</b>	4,658

The notes on pages 12 to 20 form part of the accounts.

## NOTES TO 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 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 more important accounting policies, which have been applied consistently, is set out below.

#### *(b) Annual basis of accounting*

The transfer to or from the contingency reserve is determined using an annual basis of accounting. For the purpose of reporting to mutual members all transactions are allocated to individual policy years. The result of the policy year is determined and reported when it is closed after three years of development in accordance with rules of the 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 for outstanding claims of, including provisions for claims incurred but not reported and related expenses.

#### *(e) Claims provisions and related reinsurance recoveries*

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

Marine liability claims are long tail in nature and consequently a significant element of the claims provision relates to IBNR. Claims estimates for the 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,

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

allowance is made for changes or uncertainties that may create distortions in the underlying statistics or that might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in club processes which might accelerate or slow down the development and/or recording of paid
- or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks

The variety of estimation techniques assists in giving greater understanding of the trends inherent in the data being projected and in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each policy year. Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Asbestosis and other environmental health related claims may have a long delay between the occurrence and notification. In estimating the cost of these claims the club considers the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of these kind.

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

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

### *(f) Reinsurance recoveries*

The liabilities of the 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 statement of operations relate to recoveries on claims incurred during the year. Outstanding claims in the balance sheet are shown gross and the reinsurance recoveries are shown as an asset.

### *(g) Reinsurance premium*

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

### *(h) Investment return*

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

on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Investment return is reported in the non-technical account.

*(i) Investments*

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

*(j) Foreign currencies*

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

*(k) General administration expenses*

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

*(l) Taxation*

Taxation provided is that which became chargeable during the year. Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the income and expenditure account. Deferred tax is calculated at the rates at which it is expected that the tax will arise.

Deferred tax is recognised in the income and expenditure account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total gains and losses. Deferred tax balances are not discounted. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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)	101,346	73,263	96,734	70,094	4,612	3,169
Adjustment for previous policy years	1,920	1,261	1,305	802	615	459
<i>Total calls and premiums</i>	<b>103,266</b>	74,524	<b>98,039</b>	70,896	<b>5,227</b>	3,628

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
Quota-share reinsurance premium payable to Standard Reinsurance (Bermuda) Limited	38,540	40,340	35,180	37,523	3,360	2,817
Other reinsurance premiums	20,898	17,101	20,208	17,076	690	25
<i>Reinsurance premiums paid</i>	<b>59,438</b>	57,441	<b>55,388</b>	54,599	<b>4,050</b>	2,842

5. 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
<b>Acquisition costs</b>						
Management fee	2,137	837	2,073	812	64	25
General expenses	32	5	32	5	-	-
<b>General administration costs</b>						
Management fee	2,019	791	1,958	767	61	24
General expenses	145	114	147	112	(2)	2
Safety & loss control	115	118	115	118	-	-
Auditors' remuneration for audit services	38	32	37	31	1	1
Auditors' remuneration for non-audit services	33	9	33	9	-	-
<i>Net operating expenses</i>	<b>4,519</b>	1,906	<b>4,395</b>	1,854	<b>124</b>	52

All the directors of the club are also directors of the ultimate parent undertaking from whom they receive remuneration for their services.

During the year the club obtained the following services from the club's auditor at costs 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
<b>Audit services</b>						
Fees payable to the club's auditor for the audit of the club:						
Audit for UK GAAP reporting	38	32	37	31	1	1
<b>Non-audit services</b>						
Fees payable to the club's auditor for other services:						
(a) Other services pursuant to legislation, including the audit of the regulatory return	27	4	27	4	-	-
(b) Tax services	6	5	6	5	-	-
	<b>71</b>	41	<b>70</b>	40	<b>1</b>	1



## 6. 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
<b>Investment income</b>						
Income from equities	82	116	57	86	25	30
Income from fixed-income securities	668	589	609	542	59	47
Deposit interest	59	307	56	290	3	17
Gains arising on realisation of investments	1,647	793	970	694	677	99
	<b>2,456</b>	<b>1,805</b>	<b>1,692</b>	<b>1,612</b>	<b>764</b>	<b>193</b>
<b>Investment expenses and charges</b>						
Investment management expenses	(17)	(21)	(12)	(16)	(5)	(5)
Losses on realisation of investments	(1,362)	(20)	(1,185)	(1)	(177)	(19)
	<b>(1,379)</b>	<b>(41)</b>	<b>(1,197)</b>	<b>(17)</b>	<b>(182)</b>	<b>(24)</b>
Unrealised gains/(losses) on investments	1,295	(2,857)	1,595	(2,279)	(300)	(578)
<i>Total investment return</i>	<b>2,372</b>	<b>(1,093)</b>	<b>2,090</b>	<b>(684)</b>	<b>282</b>	<b>(409)</b>

## 7. Tax charge/(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
<b>Analysis of tax charge/(credit) for the period</b>						
<b>Current charge</b>						
Corporation tax at 28.0% (2009 28.0%)	16	-	16	-	-	-
<b>Prior years</b>						
Under/(over) provision for prior years	13	(219)	13	(209)	-	(10)
<b>Deferred tax</b>						
Origination and reversal of timing differences	(12)	(62)	-	(46)	(12)	(16)
	<b>17</b>	<b>(281)</b>	<b>29</b>	<b>(255)</b>	<b>(12)</b>	<b>(26)</b>

## Factors affecting tax charge/(credit) for the period

Excess/(shortfall) of income over expenditure before tax	26,811	5,162	26,128	5,368	683	(206)
Multiplied by the standard rate of tax 28% (2009 28%)	7,507	1,445	7,316	1,503	191	(58)
Income not assessable for tax purposes	(7,246)	(1,795)	(7,043)	(1,760)	(203)	(35)
Unrealised gains spread for tax purposes	12	12	-	-	12	12
Tax losses carried forward	-	338	-	257	-	81
Tax losses utilised	(257)	-	(257)	-	-	-
Prior year tax charge/(credit)	13	(219)	13	(209)	-	(10)
	<b>29</b>	<b>(219)</b>	<b>29</b>	<b>(209)</b>	<b>-</b>	<b>(10)</b>

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. 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
<b>Unrecognised</b>						
Unrecognised deferred tax asset at 21 February 2009	338	-	257	-	81	-
Unrecognised deferred tax movement	(338)	338	(257)	257	(81)	81
<i>Unrecognised deferred tax asset at 20 February 2010</i>	-	338	-	257	-	81
Tax losses carried forward	-	338	-	257	-	81
	-	338	-	257	-	81
<b>Recognised</b>						
Recognised deferred tax liability at 21 February 2009	(56)	(118)	-	(46)	(56)	(72)
Recognised deferred tax movement	12	62	-	46	12	16
<i>Recognised deferred tax liability at 20 February 2010</i>	(44)	(56)	-	-	(44)	(56)
Unrealised gains on investments revalued every year	(44)	(56)	-	-	(44)	(56)
	(44)	(56)	-	-	(44)	(56)

9. 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
<i>At market value</i>						
Debt securities and other fixed-income securities	19,548	16,234	17,734	14,416	1,814	1,818
Shares and other variable-yield securities and units in unit trusts	883	3,926	-	2,902	883	1,024
<i>Total investments at market value</i>	20,431	20,160	17,734	17,318	2,697	2,842
<i>At cost</i>						
Debt securities and other fixed-income securities	20,018	16,251	18,186	14,360	1,832	1,891
Shares and other variable-yield securities and units in unit trusts	1,340	6,131	-	5,005	1,340	1,126
<i>Total investments at cost</i>	21,358	22,382	18,186	19,365	3,172	3,017
<i>Included in the carrying values above are amounts in respect of listed investments as follows:</i>						
Debt securities and other fixed-income securities	9,995	11,221	9,712	10,449	283	772
Shares and other variable-yield securities and units in unit trusts	322	3,527	-	2,902	322	625
<i>Total listed investments</i>	10,317	14,748	9,712	13,351	605	1,397

## 10. 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
<i>Open years</i>						
Claims	90,741	63,107	80,643	56,505	10,098	6,602
Reinsurance recoveries	(82,950)	(57,070)	(73,288)	(50,975)	(9,662)	(6,095)
<i>Net claims provision for open years</i>	<b>7,791</b>	6,037	<b>7,355</b>	5,530	<b>436</b>	507
<i>Closed years</i>						
Claims	43,427	34,321	40,679	33,822	2,748	499
Reinsurance recoveries	(40,006)	(32,026)	(37,402)	(31,577)	(2,604)	(449)
<i>Net claims provision for closed years</i>	<b>3,421</b>	2,295	<b>3,277</b>	2,245	<b>144</b>	50
<i>Total</i>						
Claims	134,168	97,428	121,322	90,327	12,846	7,101
Reinsurance recoveries	(122,956)	(89,096)	(110,690)	(82,552)	(12,266)	(6,544)
<i>Net claims provision</i>	<b>11,212</b>	8,332	<b>10,632</b>	7,775	<b>580</b>	557

## 11. Debtors arising out of direct insurance operations

	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	24,470	20,027	23,744	19,317	726	710
Intermediaries	6	27	5	4	1	23
Reinsurers	16	1	-	1	16	-
<i>Debtors arising out of direct insurance operations</i>	<b>24,492</b>	20,055	<b>23,749</b>	19,322	<b>743</b>	733

## 12. 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
Balance at beginning of year	15,748	10,305	15,428	9,805	320	500
Transfer from/(to) non-technical account	26,794	5,443	26,099	5,623	695	(180)
<i>Balance on contingency reserve at end of the year</i>	<b>42,542</b>	15,748	<b>41,527</b>	15,428	<b>1,015</b>	320

## 13. Movement in prior year's 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
<i>(Deterioration)/improvement in respect of prior years</i>	<b>(1,073)</b>	(777)	<b>(1,143)</b>	(802)	<b>70</b>	25

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. 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
Purchase of fixed-income securities	28,186	55,954	27,442	53,202	744	2,752
Purchase of equities	330	30	-	-	330	30
Sale of fixed-income securities	(25,101)	(66,260)	(24,313)	(64,515)	(788)	(1,745)
Sale of equities	(4,724)	-	(4,092)	-	(632)	-
<i>Net cash flow on portfolio investments</i>	<b>(1,309)</b>	(10,276)	<b>(963)</b>	(11,313)	<b>(346)</b>	1,037

15. Movements in cash, portfolio investments and financing

	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
<i>Cash at bank and in hand</i>						
Balance at 21 February 2009	12,101	10,265	10,285	9,326	1,816	939
Cash flow	(7,232)	1,836	(6,533)	959	(699)	877
<i>Balance at 20 February 2010</i>	<b>4,869</b>	12,101	<b>3,752</b>	10,285	<b>1,117</b>	1,816
<i>Fixed-income securities</i>						
Balance at 21 February 2009	16,234	31,079	14,416	30,217	1,818	862
Cash flow	3,085	(10,306)	3,129	(11,313)	(44)	1,007
Changes to market value	229	(4,539)	189	(4,488)	40	(51)
<i>Balance at 20 February 2010</i>	<b>19,548</b>	16,234	<b>17,734</b>	14,416	<b>1,814</b>	1,818
<i>Equities</i>						
Balance at 21 February 2009	3,926	1,442	2,902	-	1,024	1,442
Cash flow	(4,394)	30	(4,092)	-	(302)	30
Changes to market value	1,351	2,454	1,190	2,902	161	(448)
<i>Balance at 20 February 2010</i>	<b>883</b>	3,926	<b>-</b>	2,902	<b>883</b>	1,024

## 16. 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	26,811	5,162	26,128	5,368	683	(206)
Gains arising on realisation of investments	(1,647)	(793)	(970)	(694)	(677)	(99)
Losses arising on realisation of investments	1,362	20	1,185	1	177	19
Unrealised (gains)/losses on revaluation of investments	(1,295)	2,857	(1,595)	2,279	300	578
(Increase)/decrease in debtors	(23,620)	2,451	(22,738)	2,709	(882)	(258)
Increase in net claims provision	2,880	2,673	2,857	2,421	23	252
(Decrease)/increase in creditors	(13,032)	(20,147)	(12,363)	(21,810)	(669)	1,663
<i>Net cash flow from operating activities</i>	<b>(8,541)</b>	<b>(7,777)</b>	<b>(7,496)</b>	<b>(9,726)</b>	<b>(1,045)</b>	<b>1,949</b>

## 17. Rates of exchange

	2010	2009
<i>The following rates of exchange were applicable to US\$1 at 20 February 2010 (2009)</i>		
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

## 18. Ultimate parent undertaking

The ultimate parent undertaking of the club is The Standard Steamship Owners' Protection & Indemnity Association (Bermuda) Limited, a company registered in Bermuda. Group accounts are available from the parent undertaking's registered office: Burnaby Building, 16 Burnaby Street, PO Box HM1743, Hamilton HMGX, Bermuda. A parental guarantee exists to ensure that the club is able to meet its liabilities as they fall due.

## 19. Related parties

As the club is a wholly owned subsidiary, it has taken advantage of the exemption granted under FRS8 (Related Party disclosures) where subsidiaries do not have to disclose transactions with group companies qualifying as related parties provided that consolidated financial statements are publically available.