UK P&I CLUB

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited

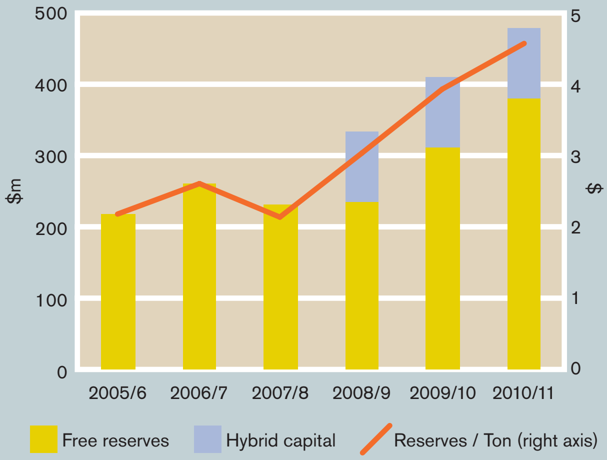
Directors' Report & Financial Statements
for the year ended 20th February 2011

FINANCIAL HIGHLIGHTS

FINANCIAL STRENGTH

- Capital and reserves increased to $478 million
- Capital and reserves per ton increased to $4.5
- Standard and Poor's rating of A- (Stable)
- Capital adequacy per the S&P capital model comfortably in the AA range
- Total assets $1.6 billion

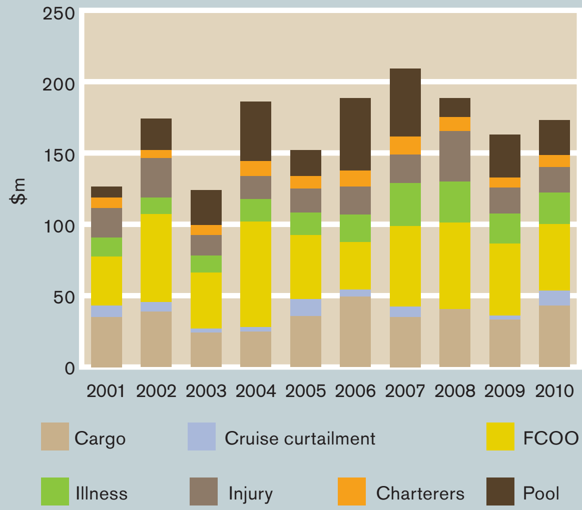
Capital and reserves for financial years 2006–2011



CLAIMS POSITION

- 2010 policy year performing broadly in line with 2009
- Prudent approach to reserving maintained particularly on the 2010 policy year
- 2009 encouraging development within prudent reserve set last year
- Frequency of claims remains low
- Loss record within the Pool maintained so reducing future pooling percentages

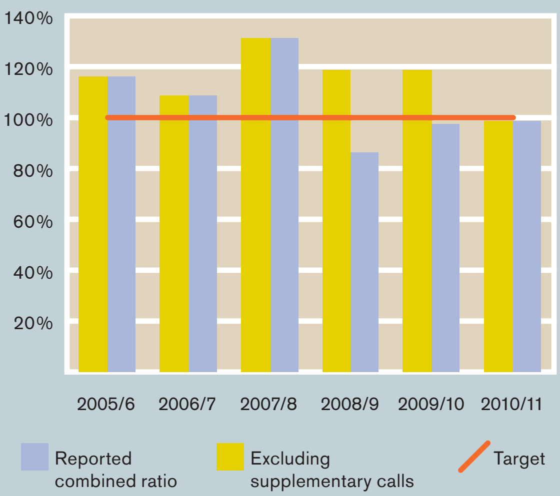
Net notified claims at 12 months for policy years 2001–2010



UNDERWRITING DISCIPLINE

- Combined ratio of 98% beats target of 100%
- 65% of all entered vessels below 10 years of age
- Discipline maintained on entry criteria with quotes refused on 5 million GT
- 25 new Members in the year

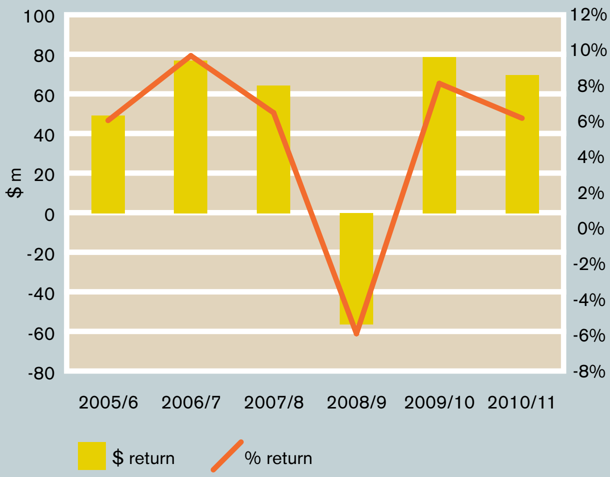
Combined ratio for financial years 2006–2011



INVESTMENT PERFORMANCE

- Return of 6.16% for the year, versus a benchmark 5.97%.
- Strong returns from each asset class — equities, bonds and absolute return funds
- Portfolio positioned conservatively for the future

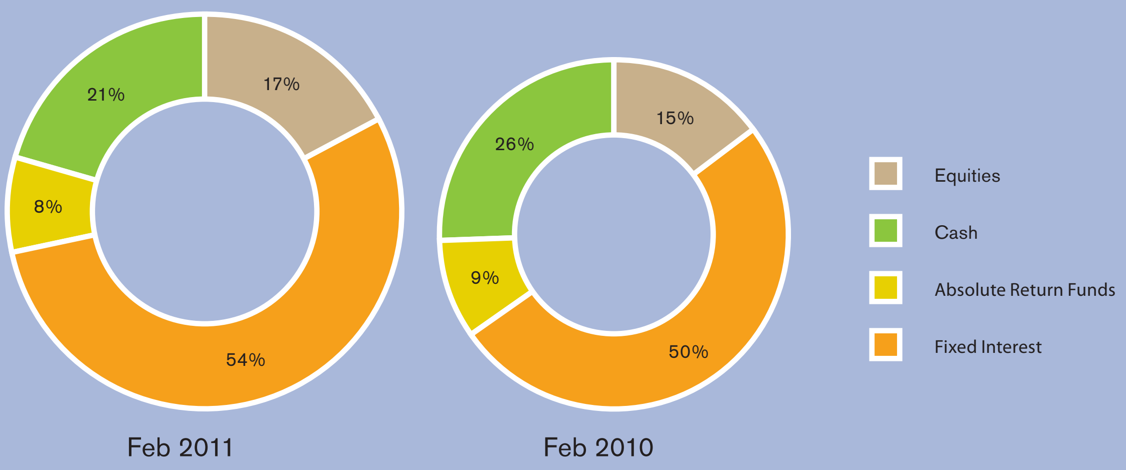
Financial year investment performance



CAPITAL & RESERVES

Amounts in $m	**Year ending 20/2/2011**	Year ending 20/2/2010	Year ending 20/2/2009
Total funds & capital	**1,287.0**	1,207.0	1,141.0
Outstanding claims	**808.7**	797.7	807.5
Free reserves & capital	**477.9**	409.3	333.7
Free reserves & capital ratio to outstanding claims	159 %	151 %	141 %

Portfolio composition



INCOME & EXPENDITURE

INCOME *Amounts in $m*	**Year ending 20/2/2011**	Year ending 20/2/2010
Calls and premiums	**364.8**	447.2
Reinsurance premiums	**(70.2)**	(75.9)
	294.6	371.3
EXPENDITURE		
Net claims incurred	**(250.4)**	(320.0)
Acquisition costs	**(20.3)**	(23.1)
Net operating expenses	**(20.4)**	(21.0)
	(291.1)	(364.1)
Operating surplus	**3.5**	7.2
Investment return	**69.5**	78.7
Interest payable on hybrid capital	**(9.0)**	(9.0)
Surplus before taxation	**64.0**	76.9
Taxation	**(1.4)**	(1.7)
Surplus after taxation	**62.6**	75.2

CHAIRMAN'S STATEMENT

"I am again pleased to report another operating surplus for the year just ended and a further significant increase in the Club's free reserves and capital which now stand at $478 million, the highest they have ever been. Holding capital at this level puts us in a strong position to meet the challenging requirements of the new European solvency regime which will take effect from 2013. Just as importantly, our Members can be confident that the process of rebuilding the Club's reserves has been successful and that the Club is now back in a position of considerable financial strength from which to meet the challenges of the future.

It is an extremely encouraging sign of that confidence that during the last year the Club saw some 15 million gt of newly acquired tonnage join the Club, mainly from our existing Members, even though this was offset to a much greater extent than normal by the effect of sales and scrapping.

Investment income has again made a welcome contribution, this year of nearly $70 million, to the surplus. This represents a return of 6.2 per cent, significantly higher than the 5 per cent long term average return we have been targeting. Our investment policy is kept under regular review and the board of our subsidiary reinsurance company, IPIR, monitors closely the performance of the investment managers within the policy set by the board to reflect the risk appetite we have agreed for the Club.

In addition to the investment income, the Club recorded a small operating surplus which brings our combined ratio below 100 per cent. This means that in this financial year we have achieved our goal of balanced underwriting so that all the investment income of the year is effectively transferred to the reserves rather than being required to support an underwriting deficit. It is important that we continue to aim for a combined ratio of 100 per cent or lower, since we have seen in the past how quickly reserves can be reduced by successive underwriting deficits, even when starting at an apparently healthy level.

At our meeting in October last year when the Directors reviewed the half year position, the Board decided to impose a general increase of 5 per cent for 2011, which we considered to be prudent in the context of the expected inflationary impact on claims. In itself the increase will not ensure an underwriting surplus since next year's result will inevitably depend on how claims develop, but it was designed to help premium levels at least keep pace with the anticipated effect of claims inflation.

The level of claims is always difficult to assess accurately even once a policy year has ended, but as we had expected, the 2009 policy year claims picture has developed favourably and continues to improve. More encouragingly, the 2010 year at this early stage is not showing signs of a significant increase in claims although in line with our usual policy on reserving, we have set a conservative claims reserve for the year to reflect the relative uncertainty of the outcome.

Looking forward, it is of course not possible to predict the level of claims we will experience in 2011. As mentioned however, the effect of the general increase should give some protection against inflationary factors and we have again put in place the reinsurance protection for our own claims to which I referred last year. This reinsurance programme safeguards the Club against a significant uplift in claims within the Club's own $8 million retention under the Group pooling arrangements, as well as giving

free reserves and capital, which now stand at $478 million, are the highest they have ever been

we have achieved our goal of balanced underwriting additional protection against claims at the Pool level and furthermore protects us against a single very large loss, from one of our own Members.

Clearly these financial developments and the current strength of our capital position will be important as we move to comply with the developing requirements of the European Solvency 2 regime; but as I mentioned last year, the new regulatory regime also places great importance on a company's corporate governance arrangements and its ability to assess and manage risk.

As Solvency 2 approaches, we have initiated a high level review of our structure with a view to optimising the amount of capital required. At the same time, the opportunity will be taken to simplify and streamline, where appropriate, the corporate governance arrangements for the Club, whilst still maintaining the benefits of a widely representative board drawn from the membership and the technical expertise of our independent professional managers.

This active membership participation in the governance of the Club reflects the mutual nature of the Club which is shared with the other clubs in the International Group and lies at the heart of the pooling and reinsurance arrangements of the Group. Ultimately these are designed to provide all members with the highest sustainable level of cover at an economic cost.

In August last year the European Commission initiated a formal investigation into the competition aspects of these arrangements following on from the expiry of the second 10 year exemption for the International Group Agreement. We and all other clubs in the International Group are fully co-operating with this investigation and have been providing full and timely answers to the Commission's requests for information. We hope that as on the previous occasions when the Commission has considered these arrangements in detail, the conclusion will again be that such restrictions as are embodied in the IGA are indeed necessary to be sure that the members of all the Clubs (who are the consumers in this context) can continue to benefit from the Group's pooling and reinsurance arrangements.

During the year, the Board also had to consider the serious implications for the Club of recent sanctions legislation in Europe and the United States, particularly in relation to Iran. The apparently growing trend towards including insurance in international trade sanctions has raised new issues for the Club. There is a difficult balance to be struck between trying to ensure that individual members have the best possible cover for their own legitimate trading operations and protecting the Club and all its members from the serious consequences of being in breach of relevant sanctions legislation. As a result of the Board's consideration of this issue, Rule changes have been introduced for the 2011 policy year which we hope reflect a fair solution and will give the Club the essential protection we felt was necessary. Unfortunately one casualty was the enforced departure from the Club of a long-standing member for whose fleet the Club was no longer able safely to provide cover as a result of such legislation.

Whatever the outcome of the review I referred to earlier, it is certain that the workload of Directors, and particularly the members of two of the Board's key committees—the Strategy and the Audit & Risk committees—will not be reduced. We are very conscious of our responsibilities not only as a result of the regulatory requirements

the process of rebuilding the Club's reserves has been successful but also of our responsibility to the membership. Inevitably, increasing time has to be devoted to ensuring a full understanding of the risks faced by the Club, the effective management of those risks and the implementation of the Board's policies by our Managers.

At the same time we are also a Board which is concerned with general industry-wide issues faced by our membership. Often these are reflected in the claims reports which the Managers provide for us at each of our meetings but even where we are less directly concerned with claims, we monitor developments closely with a view to trying to provide as much support and guidance for our members as we can. This is reflected in the high volume of loss prevention and advisory material which our Managers are providing on a weekly basis through the Club web-site which has become such an important feature of the Club's service.

We have been most concerned for example, by the predicament of those seafarers caught up in piracy. Detailed reports from the Managers, and contributions from individual Directors with expertise in countering piracy, have helped the Board to monitor activities at a political, military and industry level, and to promote members' awareness of the crucial role of industry self-defence through the Best Management Practices.

The work of the main committees of the Board has become ever more demanding as we seek to ensure with the Managers that the Board has the necessary information and, where appropriate, recommendations to discharge its responsibilities. We rely heavily on the members of these committees and I am most grateful to them all for giving their time and experience so generously. I am particularly indebted to the deputy chairmen—Eric André, who is Chairman of both IPIR and the Audit & Risk committee, Alan Olivier who represents the Club on the Thomas Miller Board and Patrick Decavèle for their guidance and support as well as the long hours they devote as members of virtually all the committees. It is thus with great sadness that we have said farewell to Patrick who has served the Board and the Club with great distinction.

Two other directors who have also given the Club distinguished service retired last October—Sergey Frank and John Ioannidis—and I would like to thank them for their contributions particularly in John's case where over the last fifteen years his commitment and service to the Club have been exemplary. I would also like to make special mention of Jan Kopernicki who retired from Shell in March of this year, having been a director of the Club for over twelve years; his eloquence and clarity of thought will be greatly missed.

Finally I would like to take this opportunity to thank our Managers for the work they do on behalf of the Club. For all Members, the Managers represent the face of the Club in their day to day dealings with underwriters, claims executives, loss prevention experts or just on general enquiries. The Managers' team has been led in recent years by Luke Readman who has announced his intention to retire this year after nearly 40 years of working for Thomas Miller. We will miss his understated style of leadership and the benefits of intellect and experience he has brought to our Board meetings, but I have every confidence that his successor Hugo Wynn Williams, ably supported by Nigel Carden, will now take the Club forward from the sound financial base we have re-established successfully to meet the challenges that lie ahead.

Dino Caroussis, Chairman

the Club is now back in a position of considerable financial strength from which to meet the challenges of the future

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REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Review of the Year and Financial Statements of the Association for the year ended 20th February 2011.

PRINCIPAL ACTIVITIES OF THE ASSOCIATION

The principal activities of the Association, including its subsidiary companies, during the year were the insurance and reinsurance of marine protecting and indemnity risks on behalf of the Members.

At 20th February 2011 the owned tonnage entered in the Association and through its subsidiary, The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited, on mutual terms totalled approximately 105 million gt (102 million in 2010). In addition, in excess of 80 million gt of chartered tonnage was entered in the Association at any time during the year.

DIRECTION AND MANAGEMENT OF THE ASSOCIATION

Ultimate control over the Association's affairs rests with the Board of Directors, who are all elected by the shipowner Members of the Association. With the exception of the two Bermuda resident Directors, all the Directors are officers or agents of Members.

The Directors meet on four occasions each year to carry out the general and specific responsibilities entrusted to them under the Rules and Bye-Laws, and a commentary on the matters considered during the past year is contained in the Review that follows. The Directors are themselves active shipowners, and are restricted in the amount of time that they can make available to running the Association's affairs. The Board delegates the day to day running of the Association to the Managers, Thomas Miller (Bermuda) Ltd.

The Managers, through their London agents, Thomas Miller P&I Ltd., and also through a network of offices in Asia, America and Europe, form the principal contact between the Association and the Members. In addition to carrying out the policies laid down by the Board, they also act as the conduit for feedback to the Board of the Members' views.

At the Board meetings, the Directors receive reports from the Managers on all areas of the Club's operations in accordance with an agreed schedule of reports. The Board also considers and decides issues of policy on general matters concerning the Club and the Members' interests.

The Chairman and Deputy Chairmen meet with the Managers regularly during the year to discuss current developments and the preparation of matters for consideration and decision by the Board. The Board has established a number of committees.

The Strategy Committee of the Board meets eight times a year to provide in depth discussion and analysis of strategic issues which are to be considered by the Board and of any particular matters which the Board decides to refer to it. Issues discussed by the Committee over the past year have included Solvency 2, IG matters (EU investigation, sanctions and piracy), reinsurance arrangements, governance arrangements and the Corporate Plan. The Committee is comprised of the Chairman and Deputy Chairmen of the Club and nine other Directors who have considerable experience on the Board. The Committee reports to the full Board with the results of its deliberations and its recommendations.

The Audit Committee of the Board has met on three occasions over the past year. In line with the requirements of Solvency 2, its remit has been extended to include risk issues and is now known as the Audit & Risk Committee. This Committee will now meet four times a year. Its current chairman is Eric André who is a Deputy Chairman of the Club. In addition to four Club Directors being on the Committee, there are two independent members—

Robert Quayle, a director of IPIR, and Nigel Smith, who has accounting expertise in the insurance and shipping sectors. Nigel Smith has specific responsibility for liaison, on behalf of the Committee, with the head of internal assurance of Thomas Miller. The Committee has wide ranging responsibilities including reviewing of reserving, Report and Accounts, internal audits and the oversight of regulatory matters worldwide. Over the past year the Committee has been particularly active in the work relating to Solvency 2, Financial Services Authority and governance of the Club and its subsidiaries. The Committee reports to the full Board on all of these issues to enable the Club to take key decisions.

In the light of the increased responsibilities and influence of the Strategy and Audit & Risk committees, it was decided that the members of these Committees would be in future FSA Approved Persons.

The Nominations Committee makes recommendations to the Board regarding its composition as and when new Directors are to be appointed. It also makes recommendations on the composition of committees and subsidiary boards. The Ship and Membership Quality Committee oversees ship and membership quality and makes reports to the Board. IPIR, the Association's wholly owned quota share reinsurance subsidiary, is responsible for managing the majority of the investment portfolio. Its board comprises shipowner directors of the Association, as well as independent investment directors and Isle of Man resident directors. The Association's wholly owned European subsidiary's board (UK P&I (Europe) Ltd.) is made up from shipowner directors who are also Directors of the Association.

Other committees of the Board are formed, as needed, in order to review specific issues as delegated by the Board, or take decisions on behalf of the Board, for instance regarding th e operation of the Club's war risks cover where urgent decisions may be required.

The International P&I Reinsurance Company Ltd (IPIR) is a wholly owned subsidiary of the Association based in the Isle of Man. IPIR reinsures 90 per cent of the retained protection and indemnity risks of the Association. In addition to three Directors of the Association, the board is comprised of two directors resident in the Isle of Man and directors from Guernsey and Bermuda. These board members have specific knowledge of investments, insurance and reinsurance.

AUDITORS

During the year Moore Stephens and Butterfield resigned as auditors of the Association and Moore Stephens LLP (London) were appointed in their place.

DIRECTORS

The present Directors of the Association are shown below. Also shown are those who retired from the Board since February, 2010. The Board wishes to record its thanks to those Directors for the contribution they have made to the work of the Board and the affairs of the Association.

Bye-Law 14 (c)(i) provides for Directors to retire who have been in office for three years since their last election. Consequently Messrs E. André, C.I. Caroussis, A.H. Azizan, M.L. Carthew, N.G. Inglessis, A.C. Margaronis, M. Morooka, P. Vasilchenko and H. von Rantzau will retire at the forthcoming Annual General Meeting in Athens on 17th October, 2011. All these Directors, with the exception of Messrs Azizan and von Rantzau, have offered themselves for re-election.

In October 2010, Mr C.I. Caroussis was re-elected as Chairman of the Board of Directors and Messrs E. André, P. Decavèle and A.K. Olivier were re-elected as Deputy Chairmen. Mr Decavèle stood down as Deputy Chairman in February 2011.

BOARD OF DIRECTORS

C.I. Caroussis SC, Nom, SQ
Chairman & President
Chios Navigation (Hellas) Ltd, Piraeus

E. André SC, AR, Nom, SQ, IPIR
Deputy Chairman & Vice President
Suisse-Atlantique S.A.,
Renens/Lausanne

A.K. Olivier SC, Nom, SQ
Deputy Chairman & Vice President
Grindrod Ltd, Durban

F.A.H. Ali
Kuwait Oil Tanker Co. S.A.K., Kuwait

E.N. Ambrosov *
OAO Sovcomflot, Moscow

A.H. Azizan SC, SQ
MISC Berhad, Kuala Lumpur

G. Bottiglieri SC
Giuseppe Bottiglieri Shipping
Company S.p.A, Naples

M.L. Carthew SC, Nom
Chevron Shipping Company LLC,
San Ramon

H.V. Franco SQ
Harley Marine Services, Inc, Seattle

A. Frangou *
Navios Maritime Holdings Inc, Piraeus

O. Gast SC, IPIR
Hamburg Südamerikanische
Dampfschifffahrts-Gesellschaft K.G.,
Hamburg

S.L. Ghomri
Hyproc Shipping Company SPA, Oran

R.C. Gillett AR
Hamilton, Bermuda

N.G. Inglessis Nom, SQ
Samos Steamship Co., Athens

M.R. Itkin SC, IPIR
Overseas Shipholding Group Inc,
New York

A.C. Junqueira SQ
Petrobras Transporte SA –
Transpetro, Rio de Janeiro

C.E. Kertsikoff SC
Eletson Corporation, Piraeus

J.B. Lee Nom
Korea Line Corporation, Seoul

A.M. Lemos
Unisea Shipping Ltd, Piraeus

J. Liberty AR
Royal Caribbean Cruises Ltd, Miami

P. Louis-Dreyfus, OBE Nom
Louis Dreyfus Armateurs S.A.S., Paris

A.C. Margaronis SC
Diana Shipping Inc, Athens

N. Mukae
Kumiai Senpaku Co., Ltd, Tokyo

M. Morooka SC
Nippon Yusen Kaisha, Tokyo

K. Siggins AR
Hamilton, Bermuda

H. Takahashi
JX Tanker Company
Limited, Yokohama

N.P. Tsakos
Tsakos Energy Navigation
Limited, Athens

P.A. Vasilchenko SQ
Far Eastern Shipping
Company, Vladivostok

H. von Rantzau Nom
DAL Deutsche Afrika-Linien
GmbH & Co., Hamburg

Zhang Liang
China Ocean Shipping
(Group) Co., Beijing

Strategy Committee	SC
Audit & Risk Committee	AR
Nominations Committee	Nom
Ship and Membership Quality Committee	SQ
International P&I Reinsurance Company Ltd	IPIR

* New Directors elected in October 2010

The following Directors have left the Board since February 2010

P. Decavèle
P.B. Evensen
S. Frank
J.P. Ioannidis
J.M. Kopernicki
S.H. Seyedan
R.D. Widdows

PERFORMANCE

FOR THE YEAR TO FEBRUARY 2011

This year has seen the Club build on the success of last year and deliver a surplus after taxation of $63 million, raising the free reserves and capital to $478 million. A key feature of this year's surplus was the achievement of a combined ratio of 98 per cent, reflecting improved underwriting discipline while maintaining a prudent approach to claims reserving. The Club now has $1.6 billion in total assets and with a free reserve ratio (asset to liability) of 158 per cent is one of the strongest clubs in the International Group.

The excellent underwriting result has been supported by an investment return of 6.2 per cent, which outperformed the benchmark portfolio whilst balancing the risk of the various asset types in what is still an uncertain investment market for both fixed interest and equities. The Club has successfully rebuilt its capital position through careful management and continues to deliver the highest quality of service to Members in what have been volatile and challenging times.

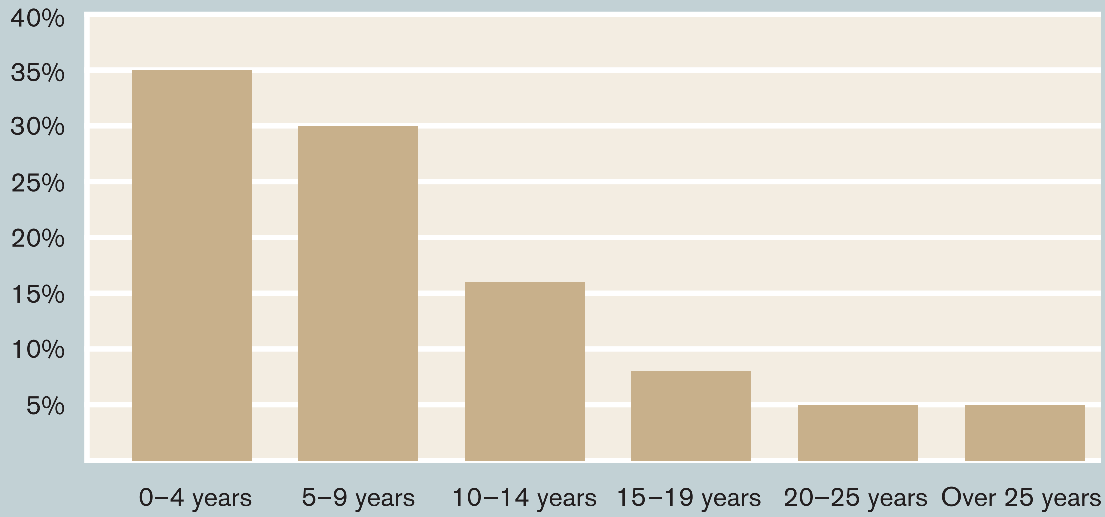
UNDERWRITING

The Club experienced a favourable underwriting year, seeing improved loss ratios, a reduction in the average age of the entered fleet and sustained levels of owned and chartered entries. The Club was able to welcome more than 25 new Members.

World ship building activity remains above historical averages despite the delays to many scheduled delivery dates. Scrapping and sales levels have been equally elevated and the Club experienced nearly 20 per cent fleet turnover when assessing the combined impact of sales, scrapping and additional new buildings entered. The high level of underwriting activity has the favourable result of improving the age profile of the entered fleet but, unsurprisingly, newer ships will tend to come on risk at lower rates than older ships.

The table below sets out the average age profile of the entered owned fleet immediately after the 20th February 2011 renewal. A third of ships entered in the Club are below five years of age, with roughly 65 per cent of all owned ships in the Club below ten years of age.

Table 1: Age profile of Club owned entered tonnage as of 20th February 2011

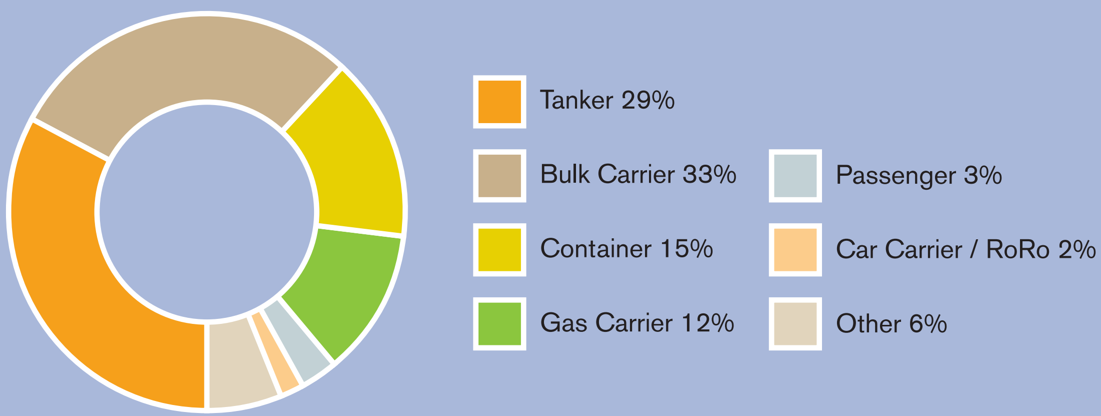


The fleet profile by trade type is set out in Table 2. The Club entry profile broadly reflects the world fleet, though the Club has slightly higher relative entries of some trade types such as tankers and gas vessels.

At the 2011 renewal, 14 per cent of the Club's Members changed deductible terms, slightly less than the 20 per cent the year before. As inflation continues for most types of claim, in particular routine crew claims, the Club continues to encourage Members to review deductible levels. Appropriate deductible levels are important for the results of Members and for the Club as a whole, and the Board will once again review standard levels of deductibles in October 2011.

During the year the Club continued to stress the importance of the quality of the Membership. Ship inspections took place on 350 vessels and the inspectors endeavour to work cooperatively with Members to identify best practices and share the Club's loss prevention experience. Importantly, the Club maintains cautious policies when considering new owners for entry in the Club. During the year, the Club declined to offer quotes for more than 5 million gt which did not meet the Club's underwriting standards.

Table 2: UK Club entry profile at 20th February 2011 by trade type by tonnage



CHARTERERS' BUSINESS

On average the Club had in excess of 80 million gt of chartered business on risk at any one time during 2010. The overall premium derived from the charterers' book of business has remained between $45-50 million per policy year between 2008 and 2010 and did not suffer a meaningful decline in activity as shipping rates slumped and global chartering activity slowed. Momentum was maintained through a combination of new charterer Members and a better than expected level of chartering activity from existing Members. The charterers' book of business is now an important part of the Club's overall activity and makes a positive contribution to the financial results.

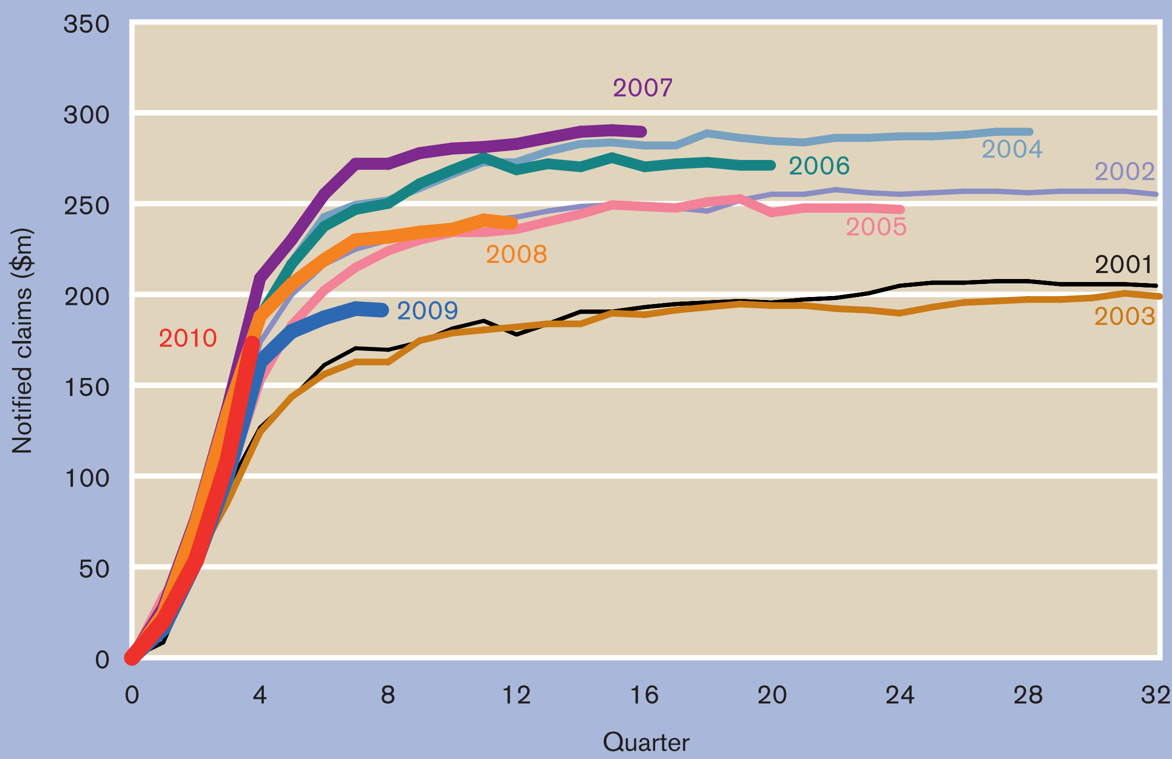
Broker relations remain important to the Club, with more than half the Members of the Club entered through an intermediary. The Club seeks to work closely with intermediaries in all aspects of the underwriting process and sharing of information about the Club. The Club hosted a series of broker receptions and financial briefings during the year, and continued to improve the online resources available to both Members and brokers.

CLAIMS

The 2010 financial year has seen a continuation in the positive trend in the claims development on the more recent policy years, particularly 2009 as can be seen clearly in Table 3 below.

There is now strong evidence of a link between the performance of the shipping markets and the volume of P&I claims, particularly the attritional or lower level claims. Although there are some

Table 3: Net notified claims for policy years 2001–2010 at 20 February 2011



tentative signs of recovery in parts of the world economy, many sectors of the shipping market remain in the doldrums and this is likely to continue for at least the next 12 months. The outlook for attritional claims is therefore likely to be benign in the near future. The larger claims, typically those claims in excess of $500,000, are more random in nature and do not necessarily follow the same pattern

Table 4 shows the best estimate of the ultimate claims by policy year along with the cost of the Pool as a proportion of the total claims. The main change during the financial year to 20th February 2011 has been the positive development in the claims on the 2008 and 2009 policy years and the consequent reduction in the ultimate claims provision on those years.

The 2010 policy year is at a very early stage of development and even though the year is showing a similar development to that of 2009 policy year, as shown in Table 5, the claims ultimate is higher reflecting the inherent uncertainty in forecasting claims after only 12 months development. It is expected that 2010 is likely to deliver a similarly encouraging underwriting result as 2009 once the year has developed for a further 12 months.

Table 4: Ultimate claims (best estimate) for policy years 2001–2010 at 20 February 2011

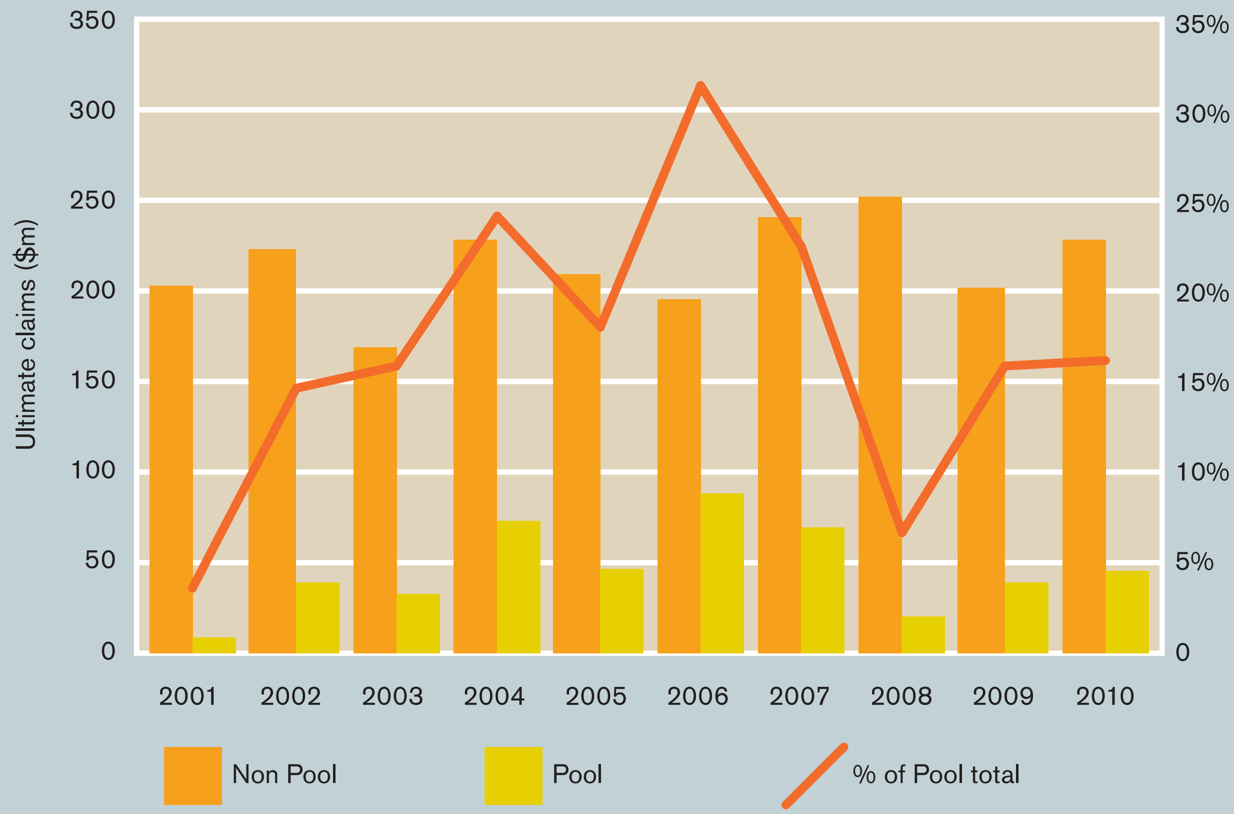
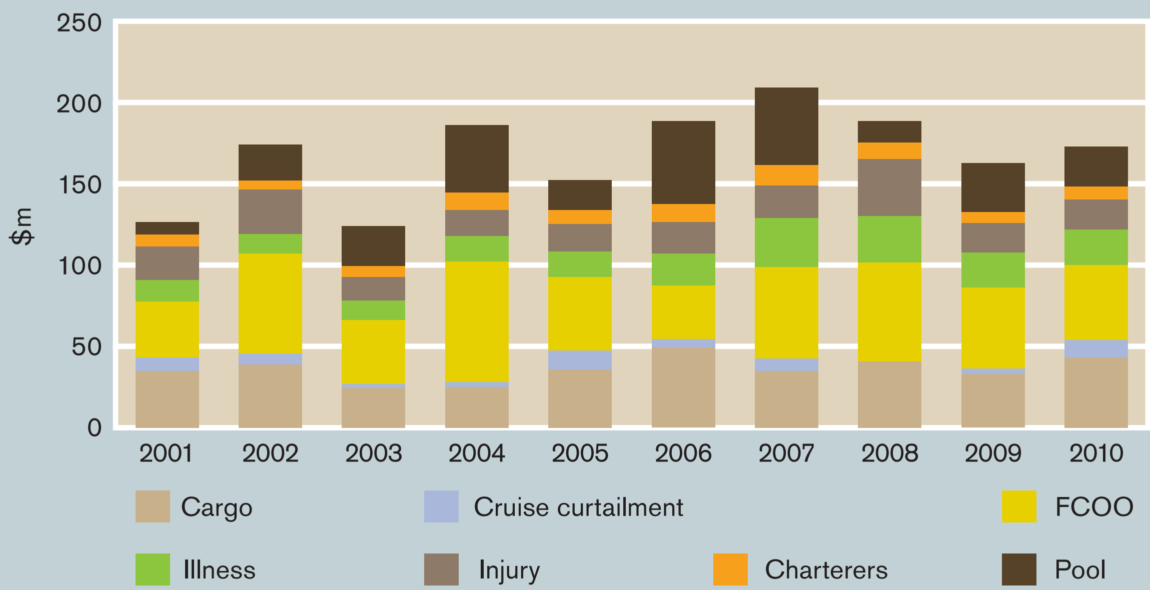


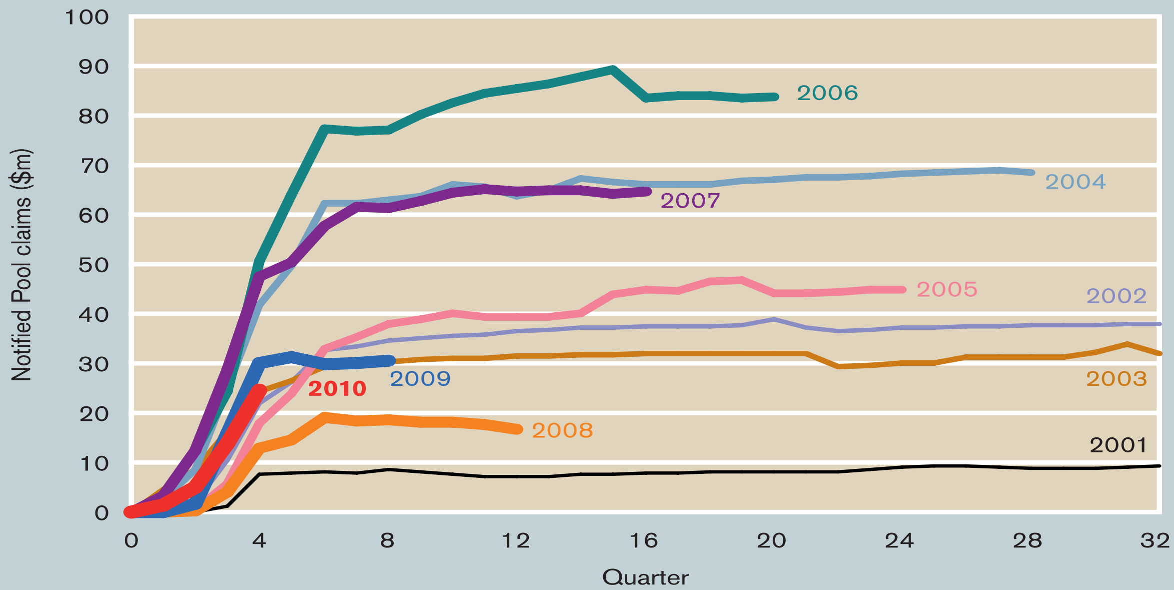
Table 5: Ultimate claims (best estimate) for policy years 2001–2010 at 20 February 2011



POOL

Pool claims for the 2010 policy year are at a similar level to those of 2009 at the same stage of development (see Table 6), and it is encouraging that the Pool has not returned to the claims levels reached on the 2006 and 2007 policy years. Nonetheless, the Club has purchased additional reinsurance protection for Pool claims for both the 2009 and 2010 policy years which will provide a cap on the Club's exposure to any significant deterioration should there be any late development on these years.

Table 6: Net notified Pool claims for policy years 2001–2010 at 20 February 2011



RETAINED CLAIMS

The decline in the volume of world trade in 2009 and 2010 has had a beneficial impact on the number of claims reported to the Club. A clear example of this can be found in the drop in the frequency of claims in the more recent policy years. The number of claims reported in the 2009 policy year was 25 per cent lower than the claims reported for the 2007 policy year. In addition to the impact of the downturn in the world economy, advances in technology and improvement in shipboard practices have also contributed to the improved claims position. However, the rise in the average value of claims reported last year has continued unabated. In 2000, the average claim cost was $17,806. By 2010, this figure had reached $29,069. Looking at particular claim types, the average cost of injury claims has risen from $6,996 in 2000 to $40,771 in 2010. In 2000, collision claims cost on average $41,066. By 2010 that figure was $287,914. Whilst the latter category of claim is far more prone to volatility, the evidence clearly suggests that the cost of dealing with marine accidents is increasing. An understanding of these claims trends has enabled the Club to improve its underwriting results and to tailor its own reinsurance programme.

LOSS PREVENTION

As important as responding to Members' claims is the Club's capacity to avoid losses. The shipment of iron ore and nickel ore fines from India and Indonesia respectively has presented unique challenges in that regard.

The past two years have seen a number of instances where these cargoes have been loaded onto ships with a moisture content that exceeds the limit that is safe for carriage at sea. Following departure from the load port, these cargoes have been prone to liquefaction, which can seriously compromise a ship's stability. At least four ships are reported to have capsized within the last year whilst carrying nickel ore cargoes, with a loss of 48 lives. There have also been a number of "near misses" with iron ore fines loaded in India following on from two well documented losses in previous years.

The Club has assumed a leading role in investigating these incidents and implementing measures which can be taken to reduce the risk of dangerous cargoes being loaded. These include detailed guidance for owners on the enquiries that should be made into these cargoes prior to shipment, and procedures for sampling and testing cargoes. These measures have not always been welcomed by the shippers of the cargoes who have frequently sought to circumvent the proper testing procedures. However the inescapable fact is that no ships have been lost where these procedures have been followed.

HEAVY WEATHER INCIDENTS

On occasions however, there are reminders that the best preparations can be no match for the weather. In December 2010 there was a particularly violent storm in the eastern Mediterranean. A large cruise ship entered in the Club was approaching Alexandria in the early hours of the morning, when it encountered a series of very large waves which caused the ship's speed to drop rapidly. Making little headway, the ship took a series of heavy rolls, peaking up to what was thought to be a 32 degree roll to starboard. Some 120 passengers reported injuries, however had the incident occurred during the day the consequences could have been far more severe.

The same weather system produced far more grave consequences for the JOLLY AMARANTO, which suffered an engine failure during the storm causing the ship to broach. The ship was towed to Alexandria. However, whilst attempting to berth the continuing strong winds caused a towline to part, as a result of which the ship ran aground in shallow water on the edge of the approach channel to the port. The ship took on an immediate list, and water flooded the lower cargo hold, the vehicle deck and the engine room. A salvage operation was initiated, but later suspended during the civil unrest in Egypt. Over the course of the next few weeks, further heavy weather caused a significant increase in the list with the resulting loss of all of the remaining cargo. The ship is now a total loss and subject to a complex wreck removal operation.

CASES FOR CONSIDERATION

Two claims were referred to the Directors for a decision regarding cover. Both were presented under Section 24 of Rule 2, the "Omnibus Rule". In the first of these cases the Directors decided that the Member should recover running costs during a period of delay whilst security negotiations were undertaken. The period of delay enabled the Club to post security in a jurisdiction where favourable rights of limitation prevailed. In the second case, the Directors also decided that the Member should recover running costs, but on this occasion in respect of a period of diversion to avoid a threatened arrest of the ship. The arrest was sought in respect of a covered risk where the Member's liability was several months later to be proved unfounded. In both of these cases the Directors' decisions reflected the advantage to the Club of the period of delay and diversion respectively.

JAPANESE EARTHQUAKE AND TSUNAMI

Shipping is an unpredictable business operating in a volatile world. No greater demonstration of unpredictability came with the Japanese earthquake and tsunami. The impact of these tragic circumstances on the Club will in all likelihood be minor, with property insurers bearing the majority of the losses involved.

INDUSTRY MATTERS

In August, the European Commission announced a formal investigation into certain aspects of the Group's claims sharing and reinsurance arrangements, focussing on release call practices, the quotation procedures under the IGA, and access to reinsurance facilities provided by the commercial markets. A position paper has been used to assist Members in understanding the background, the issues raised and the IG's response. Commission requests for information have provided a useful opportunity to substantiate theory with empirical data. It remains to be seen whether the concerns of the Commission can be alleviated, but in the meantime shipowners' organisations have expressed their own concerns that the benefits of the Group arrangements should not be jeopardised.

Directors highly value the international nature of the Club and its Board, and the opportunities provided thereby to discuss shipping matters without regard to the divisions of politics. The ban under the EC sanctions regulations on provision of insurance to Iranian entities – even where engaged entirely in legal trades – brought an untimely end to a relationship with a long standing Member and was much regretted. Sanctions regimes are blunt tools and it was necessary to make a number of Rule changes to protect the Club from the sanctions risks that could arise from activities of Members, or from gaps in Pooling or reinsurance coverage.

Meanwhile, the problems of piracy have remained a constant theme for Board attention. A number of entered ships were hijacked and in some cases were used by pirates as mother ships, as pirate tactics evolved to overcome limitations of poor weather and to extend their range of attacks to areas distant from naval forces. Although claims on the Club have been largely restricted to crew injury and, fortunately, for the most part have not been serious, the risks to crew have grown substantially with longer hijack periods and increased use of violence to overcome defences.

The Club's website is regularly updated

with piracy-related information and the Managers have strongly recommended that owners take care to follow the industry Best Management Practices when sailing in the high risk area – which now extends almost to the shores of India. The need for self-defence has never been higher and a number of Members with ships having low speeds or low freeboards have assessed the risks as justifying the use of armed guards. Armed protection could eventually have its own dangers, especially if pirates counter stronger defences with stronger attacks. The Club recognises that there is a role for the use of private guards or (preferably) vessel protection detachments from navies in appropriate cases, but would remind Members that it is not a substitute for the basic anti-piracy measures recommended in the BMP.

RISK & CAPITAL MANAGEMENT

Risk and capital management have become an important focus of regulators and rating agencies alike in recent years. The Club has taken the issue of risk management seriously for some time within its loss prevention and ship inspection activities which represents the customer facing element of its risk management function. The development of the Individual Capital Assessment (ICA) regime by the UK Financial Services Authority, over five years ago, led to the Club improving its management of risk across the business and using the ICA model to inform decisions in areas such as investment policy and reinsurance purchase. Whilst the techniques are becoming increasingly more sophisticated the underlying rationale remains the same, to manage risk and capital effectively for the benefit of Members, given the requirements of regulators and rating agencies.

Central to managing risk across the business remains the quantitative and qualitative assessment of risk, which is focused on the Club's internal risk model and the S&P rating model. Both of these models have been used for making key business decisions. The Club has now entered the Solvency 2 Internal Model Approval Process, which is the means by which the regulator will approve the Club's approach to measuring its own Solvency Capital Requirement (SCR) under Solvency 2. The further development of the Club's own risk model to meet these more exacting requirements will be taking place during 2011. In addition to focusing on the Club's insurance risks, the model will also provide a framework for one of the most important activities of an insurer, namely Asset - Liability Management, (ALM). ALM ensures that an insurer matches the risk profile of the assets (the investment portfolio) with its liabilities, thereby protecting the capital base against an adverse change in claims, investments or currencies. ALM alone cannot protect an insurer against all risks. In its Corporate Plan, the Club considers not only the strategic direction of the Club, but also through thorough risk analysis the Plan identifies scenarios or extreme events that could seriously disrupt the Club's financial position.

The Club then considers the best way to mitigate these risks, some of which can be transferred through reinsurance, others through organisational processes and contingency plans. Finally, risks are also mitigated through holding a certain level of capital to meet solvency and regulatory requirements. Meeting regulatory capital standards is a minimum obligation, but the Club chooses to target a higher level of capital adequacy, the AA range on S&P's capital model.

In addition to building the Internal Model, the Club has undertaken detailed work with an independent firm of actuaries to develop its underwriting pricing, which complements the technical loss prevention activities.

Risk and capital management is not solely about statistical analysis and complex modelling. It also relies on a robust governance framework and high quality management information on which to base decisions and prepare detailed analysis. This Report of Directors highlights some of the higher level changes to the Club's governance during the year including the extension of the remit of the Audit Committee to cover risk matters in addition to its audit responsibilities. The Club has ensured that it has augmented the breadth and depth of experience of its Board members with experts in the fields of investment, reinsurance, finance, accounting and insurance matters. In addition the Managers continue to strengthen their governance structure to be able not only to run the Club operations on a day to day basis, but also support the Board in their deliberations on risk and capital matters. The Club works closely with industry experts in the actuarial and investment fields and also participates in industry forums both inside and outside of the P&I sector to ensure that it is following best practice in what is still an emerging area.

STANDARD & POOR'S

The Club is currently rated A- (Stable) by Standard & Poor's (S&P). The Club's capital adequacy as measured by the S&P capital model is within the AA range.

REINSURANCE

POOLING AND REINSURANCE ARRANGEMENTS FOR 2010 POLICY YEAR

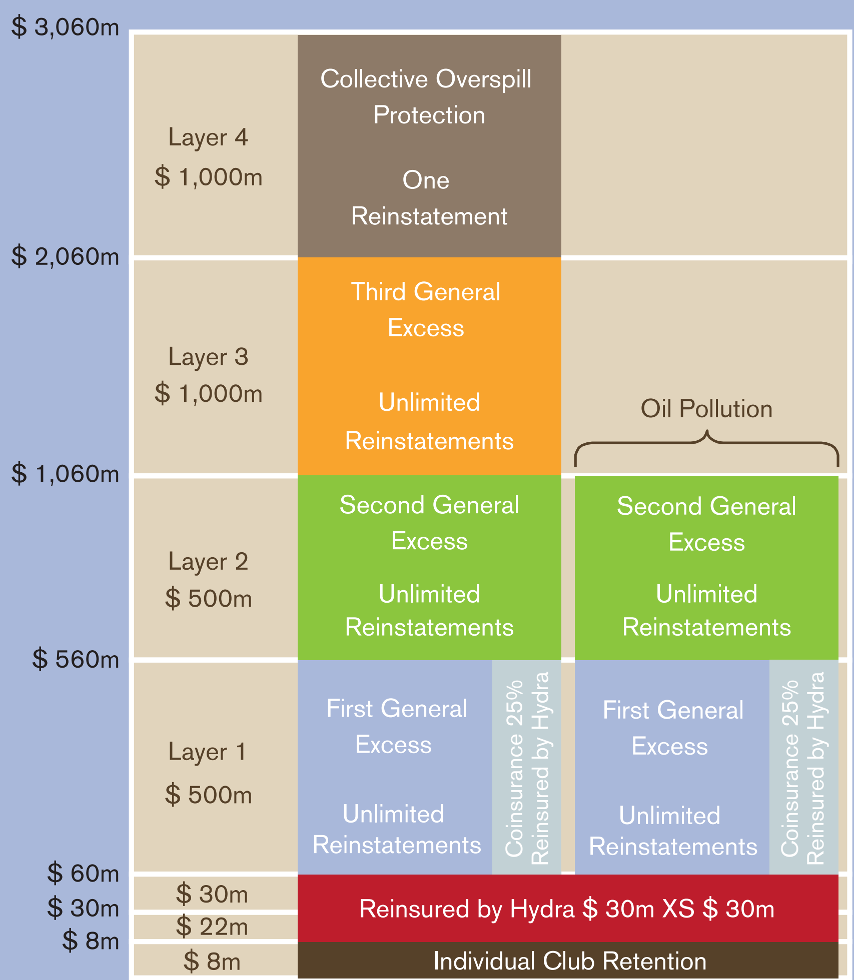
For the 2010 policy year the individual club retention increased from $7 million to $8 million. The Group Pooling arrangements and structure of the Pool remained otherwise unaltered from the 2009 policy year. The UK Club's record on the Pool continued to be very satisfactory with a loss record of 92 per cent amounting to a credit balance of $65 million.

There was no change to the structure of the International Group reinsurance contract. Although there was a small premium increase in the first layer of the contract of 5 per cent, the remaining layers of the contract, including the collective overspill layer, were renewed as before. The collective overspill layer was renewed on the basis of a 24 month policy through to 20th February 2012. Despite the increase of 5 per cent it was still possible for reductions to be given for tankers and passenger ships in the reinsurance rates and for a modest increase in the rate for dry cargo ships.

REINSURANCE ARRANGEMENTS FOR 2011

The main feature of the 2011 renewal was a decision by the Group to increase the Pool retention from $50 million to $60 million (see Table 7). This resulted in a reduction in premium to the first layer. The resultant additional $10 million retained risk within the Group Pool was reinsured by the Group captive, Hydra. Hydra in turn took the benefit of the saving in premium on the first layer. Although the contract was effectively renewed on an "as expiring" basis it proved possible to reduce the rate per ton on all categories of tonnage as a result of the increased tonnage in the world fleet.

Table 7: International Group reinsurance arrangements 2011



UK CLUB OWN REINSURANCES

The policies put in place for the 2010 policy year and reported in last year's report were successfully renewed for the 2011 policy year. This new programme was designed to protect the Club against not only single major losses but also a materially adverse aggregation of claims at lower levels both within the Club retention and at Pool level. The reinsurance of the charterers' programme was also successfully concluded on favourable terms.

OVERSPILL REINSURANCE

If a claim were to exceed $2.06 billion, ie the limit of the Group excess of loss contract, the excess or overspill will be pooled amongst the Group clubs. The overall Group Pool limit for such an overspill claim remains unchanged at 2.5 per cent of the property limitation funds under the 1976 Limitation Convention of all mutual ships entered in the International Group clubs. Mutual Members ultimately remain liable to pay an overall call up to a maximum of this limit for each entered ship, in accordance with Rule 22 of the Rules of the Club.

For the 2011 policy year the Group was able to take advantage of the 24 month reinsurance policy placed in 2010. This policy provides reinsurance protection on behalf of each club for an overspill claim of up to $1 billion. This reinsurance is available to all group clubs to reduce the need to make an overspill call on their Members. At the 2011 renewal the 24 month policy was extended for one more year to 20th February 2013.

OIL POLLUTION LIMIT

There is no change for the 2011 policy year. The limit of the Club's aggregate liability for oil pollution claims remains $1 billion as set out in the Rules.

PASSENGER AND CREW LIMITS

Similarly, there is no change to passenger cover for the 2011 policy year, and the Club's limit on cover remains at $2 billion for passenger claims and $3 billion, each event, in respect of liability to passengers and seamen.

WAR RISK AND TERRORISM COVER

For the 2011 policy year, the limit of the Group's excess war P&I insurance remains $500 million. The supplementary Pooling for "Bio Chem" claims, which will also continue to match the upper limit of the Pool at $50 million, was also continued for the 2011 policy year. Details of the war risks P&I cover arrangements for the 2011 policy year were communicated to Members by circular 2/11.

INVESTMENTS

REVIEW OF THE YEAR

During the financial year economies and financial markets continued to recover from the financial crisis of 2008 and 2009. The effects of that period on the developed economies remained evident, however. High levels of unemployment, large government budget deficits, and low levels of inflation and interest rates persisted. Central banks and governments typically pursued pro-growth anti-deflationary policies in an effort to replace private sector lending which continued to decline as banks attempted to repair their balance sheets. The developing economies of Asia and Latin America, on the other hand, recovered more quickly from the (mostly Western) financial crisis and their authorities began to tighten policies to rein in growth and dampen increasing inflationary pressures.

There were a number of economic events during the year which caused uncertainty and volatility in financial markets. These included civil unrest in North Africa, the rise in both hard and soft commodity prices and the prospect of sovereign default in Europe. To date the effect of each of these has not been lasting but could, if they got worse, have quite an impact on financial markets in the future.

Over the financial year, all major asset classes produced a positive return in US dollar terms. Shorter term treasuries returned 1.57 per cent compared to 10 years and over treasury returns of 6.30 per cent. This disguises a strong bull market in bonds in the first half of the year followed by a sell off in the second half as growth strengthened and headline inflation rose. The strength of corporate balance sheets and improving earnings and cash flows saw healthy returns from corporate bonds and equities. The similarity of equity returns around the world during the financial year was striking with the MSCI World Index appreciating by 23.15 per cent compared to the S&P 500 rising 23.50 per cent, the UK FTSE 100 by 23.19 per cent, Japan's TOPIX 23.21 per cent and Emerging Markets by 23.16 per cent. The fastest growing major economy in the world, China, once again proved that there is little relationship between economic growth and equity market returns as the Shanghai composite $ index fell 0.26 per cent during the financial year. Hedge fund of funds had a good year returning approximately 6.20 per cent.

PORTFOLIO POSITIONING

	Feb 2011	*Feb 2010*
Equities	17.32%	14.90%
Fixed Interest	54.39%	50.45%
Absolute Return Funds	7.80%	9.14%
Cash	20.49%	25.51%
Total	100.00	100.00

There were no significant changes to the portfolio weightings during the year. The main theme was to reduce the level of cash given its low returns but not to increase the risk of the portfolio significantly. This was done with the selective purchases of corporate bonds and an increased equity weighting, mostly by way of exchange traded funds.

PERFORMANCE

The investment portfolio returned 6.2 per cent during the year, adding $69.5 million to the Club's assets. This performance outstripped the benchmark performance agreed with the board. Within the portfolio the fixed interest and absolute return fund elements performed well against their respective benchmarks, with equities lagging slightly.

SERVICE

The UK Club aspires to the highest standards of service in all that it does. Service is provided by the Managers' worldwide network of offices located in London, Piraeus, Hong Kong, Singapore, Beijing, Shanghai, San Francisco and New Jersey. Service to Members is currently provided under established global systems and processes. These systems and processes continue to be certified under the ISO 9001:2000 regime which is the standard published by the International Organisation for Standardisation in relation to quality management systems. The continuing achievement of this standard demonstrates the ongoing commitment to the highest levels of service.

Service is often a distinguishing feature of the mutual insurance sector, and the Club is acutely aware that Members expect and deserve prompt, helpful responses whenever they contact the Club. Accordingly, the Club will conduct a Member Survey during the course of the forthcoming year in order to provide Members with the opportunity to comment upon the performance of the Club, and to make suggestions or recommendations for the future. Hearing the views and requirements of Members is of paramount importance to ensure that the Club continues to react to the needs of Members in a style and manner that provides real value and benefit. The results of the Survey will become available before the end of 2011 and will be made available to Members.

During the year the Club re-developed its website. The breadth and scope of available information remains similar, but a more powerful search engine will improve access to that information. The Members Area and ClaimsTrac services have retained the same structure and operation enabling all information and records to be quickly and easily retrieved. The website continues to provide advice and guidance on the issues affecting the industry, contact details and information on the Managers' staff and the Correspondents' network, and also information on the ships entered with the Club. It has, for some time, been recognised as one of the best websites in the industry and, with the recent redevelopment, this status has now been formally recognised with the award of "Best in Class" in the Insurance category at the Interactive Media Awards.

A further development during the year was the completion of the work to update the Managers' underwriting system. The new system has been developed over a period of about two years and will see a much improved underwriting platform that is more flexible, is based on modern underwriting methodologies and which has been developed using the latest IT infrastructure and advances.

The Club has continued to support Members with technical presentations, seminars and specific events which are often targeted on the needs of particular groups from within the membership. An example of this is the annual Bodily Injury Team Seminar in the United States that focuses on these particularly expensive claims. Events are usually run by Club staff and often take place in a Member's office or location. In addition, the Club seeks to provide education to Members through regular newsletters, contact with staff, and weekly email updates. Lastly, the Managers run an annual training event titled "An Insight into Transport Law and Insurance" to give Members an understanding of the issues and factors affecting the world in which the Club operates. This year's course will take place in September 2011, and a regional version will take place in Athens in December 2011.

Appendices to the Directors' report

Appendix 1 - Reserves of the Association

The following appendices are provided to show the reserves of the Association during the year, and the progress and current best estimate of the outcome of the open policy years.

The appendices are prepared under the accounting policies used within the Financial Statements.

Summary of Reserves

Amounts in $000	Appendix	2011	2010
Open policy years			
2010	2	(17,984)	-
2009	2	48,354	(32,198)
2008	2	92,340	39,291
2007	2	-	(10,685)
Surplus/(Deficit) on Open years		122,710	(3,592)
Closed policy years	3	-	-
Contingency Account	3	204,058	211,276
Catastrophe reserve	3	46,549	42,891
Other Comprehensive income		5,436	
Reinsurance Retention reserve		-	13,046
US Oil Pollution AP reserve		-	47,079
Statutory reserve		240	240
Total surplus		378,993	310,940
Outstanding claims		808,744	797,710
		1,187,737	1,108,650
Perpetual subordinated capital securities		98,862	98,405
		1,286,599	1,207,055

During the year a resolution was passed by the Board to close the Reinsurance Retention reserve and the US Oil Pollution reserve and transfer the balances into the Contingency account.

Appendix 2 - Development of open policy years

Amounts in $000	2010	2009	2008
Calls and premiums	364,901	385,499	480,491
Less reinsurance premiums	65,738	61,328	61,767
	299,163	324,171	418,724
Incurred claims:			
Paid	35,916	108,050	192,353
Known outstanding estimates	150,200	104,824	88,587
Unreported estimates	99,813	47,242	27,279
	285,929	260,116	308,219
Operating expenses	37,081	38,135	45,069
	323,010	298,251	353,288
Net Investment return	5,863	22,434	26,904
(Deficit)/Surplus	(17,984)	48,354	92,340
Future investment income	23,000	12,000	5,000
Anticipated surplus	5,016	60,354	97,340

Notes:

(a) Incurred claims comprise claims paid (net of reinsurance recoveries), together with contributions to other P&I associations under the Group's pooling arrangements, claims management costs and expenses, and estimates for reported and unreported claims (including future claims management costs).

(b) The approximate yield of a 10 per cent supplementary premium on the open policy years would be $30 million (2010), $32 million (2009) and $34 million (2008).

(c) Calls and premiums are shown gross; operating expenses include acquisition costs.

(d) The outstanding contributions to other P&I associations' claims under the Group's pooling arrangement, including unreported claims, are $35 million (2010), $25 million (2009), $4 million (2008) respectively.

(e) Future investment income reflects the investment income expected in respect of policy year funds.

Appendix 3 - Development of closed policy years, contingency account and catastrophe reserve

Amounts in $000	Closed policy years	Contingency Account	Catastrophe reserve
Balance at 20th February 2010	242,618	211,276	42,891
Investment return	466	20,704	3,658
Perpetual subordinated capital securities interest	-	(9,000)	-
Transfers on closure:			
Deficit on 2007 policy year	-	(10,685)	-
Balance of 2007 policy year	109,881	-	-
Premium adjustments	(3,069)	-	-
Reserve transfer	-	60,125	-
Claims paid net of reinsurance recoveries	(126,957)	(500)	-
Transferred to Contingency account on review of estimated and unreported claims	67,862	(67,862)	-
Balance at 20th February, 2011	290,801	204,058	46,549

Outstanding claims	290,801	-	-
Net surplus (see Appendix 1)	-	204,058	46,549

Notes:

(a) The outstanding claims on closed years include a provision for Group pooled claims of $65 million (prior year $67.4 million) including a forecast for unreported claims. The outstanding claims figure is shown net of recoveries from excess loss underwriters of $32.4 million (prior year $33.7 million), from the Pool of $41.4 million (prior year $57.9 million) and from other reinsurers of $15.6 million.

Appendix 4 - Total funds and liabilities

Summary of funds available, estimated and forecast claims, and discounted value of future claims at 20th February 2011.

Amounts in $000	Funds available	Estimated claims and forecast of unreported claims	Discounted liability
Total Closed Policy Years	290,801	290,801	271,748
Open policy years			
2008	208,204	115,864	108,275
2009	200,420	152,066	142,103
2010	232,029	250,013	233,632
Reserves			
Reinsurance Retention reserve	-	-	-
US Oil Pollution AP reserve	-	-	-
Contingency Account	204,058	-	-
Catastrophe reserve	46,549	-	-
Other Comprehensive income	5,436	-	-
Statutory reserve	240		
Total funds	1,187,737	808,744	755,758

The estimated outstanding claims have not been discounted within the financial statements. This appendix shows the net present value of the future flow of premiums and claims when discounted at 2.6 per cent. The rate of discount is a conservative estimate of the longer term rate of investment return. This discounting demonstrates the potential effect of the investment income generated by the funds of the Association when applied to reducing the liabilities, and thus shows the otherwise undisclosed potential within the Association's reserves.

Independent auditor's report to the Members of the United Kingdom Steam Ship Assurance Association (Bermuda) Limited

Report on the Financial Statements

We have audited the accompanying financial statements of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited, which comprises the consolidated balance sheet as at 20th February 2011, the consolidated statement of operations and consolidated cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

This report is made solely to the Association's Members as a body in accordance with Bermuda law. Our audit work has been undertaken so that we might state to the Association's Members those matters that we required to state to them in the audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association or the Association's Members as a body of out audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited as at 20th February 2011, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Moore Stephens LLP, London
19th May 2011
150 Aldersgate Street
London
EC1A 4AB

Note:

The maintenance and integrity of the Association's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

Financial statements

Consolidated statement of operations for the year ended 20th February 2011

Amounts in $000	Note	2011	2010
Income			
Calls and premiums	5	**364,791**	447,183
Reinsurance premiums	6	**(70,218)**	(75,935)
		294,573	371,248
Expenditure			
Net claims incurred	7	**(250,428)**	(319,964)
Acquisition costs		**(20,273)**	(23,061)
Net operating expenses	8	**(20,348)**	(21,052)
		(291,049)	(364,077)
Operating surplus		**3,524**	7,171
Investment return	9	**69,509**	78,665
Interest payable on perpetual subordinated capital securities		**(9,000)**	(9,000)
Surplus before taxation		**64,033**	76,836
Taxation/charge	10	**(1,416)**	(1,663)
Surplus after taxation		**62,617**	75,173

Consolidated statement of other comprehensive income for the year ended 20th February 2011

Amounts in $000	Note	2011	2010
Reserves at beginning of year		**310,700**	235,527
Surplus after taxation		**62,617**	75,173
Unrealised gains on hedging contracts		**5,436**	-
Reserves at end of year	16	**378,753**	310,700

The notes form an integral part of these financial statements.

Consolidated balance sheet at 20th February 2011

Amounts in $000	Note	**2011**	2010
Assets			
Investments	11	**1,171,415**	1,036,364
Cash and cash equivalents		**44,189**	30,067
Amounts due from Members		**79,296**	138,935
Reinsurer's share of outstanding claims	13	**296,269**	333,300
Accrued interest		**5,077**	4,366
Sundry debtors	12	**13,459**	19,111
		1,609,705	1,562,143
Liabilities			
Gross outstanding claims	13	**1,105,013**	1,131,010
Creditors	14	**25,901**	20,857
Provisions	15	**936**	931
		1,131,850	1,152,798
Capital and reserves			
Reserves	16	**378,753**	310,700
Statutory reserve	16	**240**	240
Perpetual subordinated capital securities	17	**98,862**	98,405
		477,855	409,345
		1,609,705	1,562,143

The notes form an integral part of these financial statements.

Directors
Mr C.I. Caroussis
Mr E. André

Mr R N Readman
Thomas Miller (Bermuda) Ltd
Managers

9th May 2011

Consolidated cash flow statement for the year ended 20th February 2011

Amounts in $000	2011	2010
Operating Activities		
Calls and premiums received	**427,579**	518,020
Receipts from reinsurance recoveries	**77,879**	32,774
Interest and dividends received	**9,675**	3,942
	515,133	554,736
Claims paid	**297,532**	316,306
Acquisition costs	**20,272**	23,060
Operating expenses paid	**22,860**	19,005
Reinsurance premiums paid	**69,552**	75,034
Pool claims paid	**15,142**	49,703
Taxation paid	**1,209**	1,432
	426,567	484,540
Net cash provided by operating activities	**88,566**	70,196
Investing Activities		
Purchase of investments	**(1,661,909)**	(1,159,150)
Sale of investments	**1,582,418**	1,057,986
Net cash used in investing activities	**(79,491)**	(101,164)
Net increase/(decrease) in cash and cash equivalents	**9,075**	(30,968)
Cash and cash equivalents at beginning of year	**30,067**	61,035
Cash and cash equivalents at end of year	**39,142**	30,067
Breakdown of cash at end of year		
Cash and cash equivalents	**44,189**	30,067
Amounts included within creditors	**(5,047)**	-
Total	**39,142**	30,067

Notes to the financial statements

Note 1 - Constitution

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited ("the Association") is incorporated in Bermuda as a company limited by guarantee and having a statutory reserve but not share capital. The principal activities of the Association are the insurance and reinsurance of marine protecting and indemnity risks on behalf of the Members. The liability of the Members is limited to the calls and supplementary premiums set by the Directors and in the event of its liquidation, any net assets of the Association (including the Statutory Reserve) are to be returned equitably to those Members insured by it during the final five underwriting years.

Note 2 - Accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. All transactions relate to continuing activities.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Subsequent results could differ from these estimates.

The Association has issued tradable securities on the London Stock Exchange. However the Association is not required to comply with the full disclosure requirements of the exchange since the securities are debt in nature.

(b) Basis of consolidation

These consolidated financial statements include the results of the wholly owned subsidiary companies, International P&I Reinsurance Company Limited ("IPIR"), which is registered in the Isle of Man, and The United Kingdom Mutual Steam Ship Assurance (Europe) Limited ("UK Europe"). IPIR reinsures 90 per cent of the risks retained by the holding company. The Association is the sole member of UK Europe which insures certain European Members of the holding company where a European insurer is required by statute.

The Association accounts for its investment in Hydra Insurance Company Limited ("Hydra") as a quasi-subsidiary. Hydra is a Bermudian segregated cell captive established by the International Group of P&I Clubs to reinsure part of the risk which clubs that are party to the Pooling Agreement previously reinsured in the market. Under the terms of the company's byelaws, the governing instrument assets are segregated in separate cells in such a way that they can be used only to satisfy the liabilities of the 'owning' club. The results of the separate cell "owned" by the Association are consolidated within the group financial statements, with all inter-company transactions eliminated on consolidation.

(c) Annual accounting

The consolidated statement of operations is prepared on an annual accounting basis and includes all the premiums for policies incepting in the year, the cost of claims incurred and reinsurance for the current year, and any adjustments relating to earlier years together with operating expenses and investment income. All revenue transactions appear in the statement of operations and are allocated to a policy year or to a reserve.

(d) Policy year accounting

The calls and premiums, reinsurance premiums payable, claims and reinsurance recoveries and outstanding claims are all allocated to the policy years to which they relate. Both the realised and unrealised investment income and exchange gains and losses are allocated proportionately to the average balance of funds on each open policy year and the other funds at quarterly intervals. Operating expenses are allocated to the current policy year.

(e) Closed policy years
On formally closing a policy year, an amount equivalent to the anticipated future investment income arising from funds attributable to that year is transferred into the policy year account from the Contingency account. This allows the policy year to close at the anticipated ultimate result. Thereafter, the actual income from such funds is credited to the Contingency Account so setting-off the original amount debited.

For a closed policy year, it is the policy of the Association to retain a balance sufficient to meet the outstanding and unreported claims on that year. Upon subsequent review (of that balance) any anticipated surplus or shortfall is allocated to or from the Contingency Account.

(f) Contingency Account
On closure of a policy year the anticipated surplus or deficit remaining on the year is transferred to or from the Account, bringing the year into balance. Thereafter, any subsequent increases or decreases in the anticipated level of outgoings on the policy year are absorbed by the Account. The Account is charged with the policy year's anticipated future investment income at the time of closure; in return, it receives the actual investment income and exchange differences as they accrue. During the year the US Oil Pollution Additional Premium reserve and Reinsurance retention reserve have been closed into the contingency account.

(g) Catastrophe reserve
The reserve is derived from calls specifically made on Members, together with its proportion of investment income and exchange differences, less transfers to the Contingency Account as resolved by the Board of Directors.

(h) US Oil Pollution Additional Premium reserve
This reserve was closed during the year. In the previous year it was held to support the Association's Pool contributions in respect of oil pollution claims in the United States emanating from tankers carrying persistent oil cargoes. The balance of premiums less claims and reinsurance premiums arising from these voyages wa transferred between the policy year and the reserve on closure of the policy year.

(i) Reinsurance Retention reserve
This reserve was closed during the year. In the previous year it was derived from savings in the International Group reinsurance contract premium arising from co-insuring (with the other International Group Pool associations) a part of the contract. The savings arising were transferred from a policy year on closure to the reserve and were considered available to meet any claims on the co-insured portion.

(j) Calls and premiums
Calls and premiums include gross calls and supplementary premiums, less return premiums and provisions for bad and doubtful debts. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any premium adjustments relating to prior accounting periods. The Directors retain the power to levy supplementary premiums, or give discounts on mutual premiums on open policy years. There are no unearned premiums.

(k) Claims
The claims include all claims incurred during the year, whether paid, estimated or unreported together with claims management costs and expenses; estimated future claims management costs and adjustments for claims outstanding from previous years. The claims also include this Association's share of similar associations' claims under International Group of P&I Clubs' pooling arrangements.

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 based on current information. The individual estimates are reviewed regularly and include this Association's share of other associations' Pool claims.

The forecast of unreported claims is based on the estimated ultimate cost of claims arising out of events which have occurred before the end of the accounting period but have not been reported. These future claims are based on the Managers' best estimate of unreported claims on each policy year. The estimates are calculated by comparing the pattern of claims payments in the current policy years with earlier policy years, and then projecting the likely outcome of the more recent years adjusted by such variables required to project the likely ultimate cost of claims. The principal variables for which adjustment is made include the impact of large losses, changes in the mix of business written, the effects of inflation and changes in the Association's processes which may accelerate or decelerate claims development or the recording of claims. The principal assumption underlying this approach is that future claims development will follow past experience.

The more recent the policy year, the more difficult it is to judge the eventual outcome. The forecast of unreported claims for the current year, which has run only twelve months, is therefore the subject of more uncertainty than more mature years. Accordingly, the Managers have taken a conservative approach when setting the level of unreported claims, preferring to be cautious in the most recent year until a clearer pattern emerges in the second year, when the level of uncertainty diminishes and forecasts may be made with greater certainty.

(l) Reinsurance recoveries

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

(m) Reinsurance premiums

These include premiums payable to market underwriters charged to the consolidated statement of operations on an accruals basis. The premiums are shown net of any commutations. The reinsurance contracts do not relieve the Association from its obligation to Members. The reinsurers are financially evaluated to minimise the exposure of the Association to losses caused by reinsurer insolvencies.

(n) Acquisition costs

These comprise brokerage, commission and the management costs directly attributable to the processing of proposals and the issuing of policies; none of these costs have been deferred.

(o) Operating expenses

These include management costs and general expenses. The management costs cover the cost of premium collection, reinsurance and investment management and include the cost of providing offices, staff and administration but exclude acquisition and claims management costs. The general expenses include the cost of Board meetings, travel, communications and other costs directly attributed to the insurance activities.

(p) Foreign currency

Revenue transactions in foreign currencies have been translated into US dollars at rates revised at monthly intervals. All exchange gains and losses whether realised or unrealised are included in the consolidated statement of operations. The differences arising on currency translation and the realised differences arising on the sale of currencies are included within exchange gains and losses within investment income.

Foreign currency assets and liabilities except the cost of investments are translated into US dollars at the rates of exchange ruling at the balance sheet date. The resulting difference is treated as an exchange gain or loss within investment income.

Forward currency contracts are entered into in order to hedge the currency exposure within the investment portfolio or future cash flows relating to operating expenses. The open contracts have been re valued at year-end rates of exchange and the potential profit or loss included with investments. Where the contacts are not designated for the purposes of hedge accounting, the profit or loss is included within exchange gains and losses within the statement of operations. Where the contracts have been designated as cash flow hedges for the purposes of hedge accounting the profit or loss is included directly within reserves. At the year end the Association has a number of forward currency agreements covering the period to September 2012 to hedge future operating expenses payable in sterling.

(q) Investments

The Association classifies financial assets as either 1) designated at fair value through profit and loss or 2) loans and receivables.

Financial assets at fair value through profit and loss

All of the financial investments of the Association are classified as designated at fair value through profit and loss. As a result, gains and losses are taken to the consolidated statement of operations, 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. Shareholdings in entities for which there is no recognised market are held at cost net of provision for any deemed permanent diminution in value.

The interest receivable from the investments together with the profits and losses on sales of investments, the amortised discount on zero coupon bonds, the amortised cost of options and dividend receipts are included within investment income in the consolidated statement of operations. The unrealised gains and losses on the movement in the market value of the investments compared to the cost are included in unrealised gains and losses on investments within investment income.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed 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.

(r) Taxation

The charge for UK taxation is shown in the consolidated statement of operations. The charge is based on a percentage of the investment income and both realised and unrealised investment gains less losses. Underwriting income is not taxable.

(s) Related party disclosures

The Association has no share capital and is controlled by the Members who are also the insureds. The subsequent insurance transactions are consequently deemed to be between related parties but these are the only transactions between the Association and the Members. All of the Directors (except two who are Bermuda residents) 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 Association.

(t) Perpetual subordinated capital securities

Perpetual subordinated capital securities represents instruments which incorporate features of both debt and capital. The instruments are repayable at the option of the issuer on completion of an initial non settlement period. The costs specifically associated with the issue of such instruments are deferred against monies received and charged to the income and expenditure account over the period of five years until the capital can be repaid. Interest payable is accrued on a straight line basis. The securities are stated net of issue costs.

(u) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition.

(v) Future accounting standards

In April 2010, the CICA confirmed the applicability of the Handbook to entities that prepare financial statements in accordance with Canadian generally accepted accounting principles. Effective for financial years commencing after 1 January 2011, including comparative figures for the prior year, publicly accountable enterprises are required to apply the International Financial Reporting Standards (IFRS) in Part I of the Handbook. The Association has developed a high level IFRS implementation plan, and an assessment of the impact of the accounting standard differences to the financial statements has been completed. This assessment has provided insight as to the most significant areas of differences applicable to the Association, including investments and insurance balances, as well as the more extensive presentation and disclosure requirements under IFRS.

Note 3 – Management of risk

The Association is governed by the Board of Directors which drives decision making within the Association from Board level through to operational decision making within the Managers. The Board considers the risk that the Association is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making. The Board is supported in its management of risk and decision making by a number of sub committees, being:

1. The Ship and Membership Quality Committee which ensures the quality of Association's membership thereby managing insurance and credit risk.
2. The Strategy Committee which assists the Board in formulating strategic direction across the business including risk, investment and reinsurance strategy.
3. The Audit and Risk Committee which considers the Business Risk Log and directs internal audit effort.
4. The IPIR Board which assists the Board in managing the investment portfolio of the Association.

In addition further committees have been established to support operational decision making each of which report to the Audit and Risk Committee, being:

1. The Reinsurance Committee which considers the optimal reinsurance structure for the Association and the security of the counterparties to the programme.
2. The Reserving Committee which considers appropriate provision against unpaid claims.
3. The Finance Committee which considers the financial position of the Association including the risk of counterparty default.

The Association is focussed on the identification and management of potential risks. This covers all aspects of risk management including that to which the Association is exposed through its core activity as a provider of insurance services, and the broader range of risks. The key areas of risk impairing the Association can be classified as follows:

1. Insurance risk – incorporating underwriting and reserving risk
2. Market risk – incorporating investment risk, interest rate risk and currency rate risk
3. Credit risk – being the risk that a counterparty is unable to pay amounts in full when due
4. Liquidity risk – being the risk that cash may not be available to pay obligations as they fall due
5. Operational risk – being the risk of failure of internal processes or controls

In order to manage these risks, the Association has continued to develop and review the internal and external governance frameworks through the Individual Capital Assessment ("ICA") and through the continuous preparation for Solvency 2.

The Board and Managers has sought to establish and embed risk management procedures within the business through a compliance manual, an internal quality management system and a risk management forum which considers and logs potential risks and how they are to be managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function and various committees noted above.

(a) Insurance Risk

The Association's exposure to insurance risk is initiated by the underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on the Association from a Member. The risk is managed by the underwriting process, acquisition of reinsurance cover, cover provided by the International Group Pooling Agreement, the management of claims cost and the reserving process.

Underwriting process

The Association provides Protection and Indemnity risk cover to Members. The Association is a mono-line insurer writing complex risks. The Association utilises an acceptable loss ratio method of pricing risks and development of claims is monitored on a quarterly basis by the reserving committee and the audit committee.

Underwriting authority is delegated to specific individuals who operate under set underwriting parameters and the ongoing guidance and review of senior management. These parameters cover areas such as screening of potential new members and risks.

Reinsurance and International Group Pooling Agreement

The establishment of the Association's reinsurance programme is driven by the Board's objective to manage risk to acceptable level and to optimise the Club's capital position. The programme comprises excess of loss reinsurance cover purchased jointly with other members of the International Group, facultative reinsurance to cover specific risks, cover against a single catastrophic event and an accumulation of smaller attritional claims.

The International Group Pooling agreement provides a sharing of claims costs between thirteen member associations. For the current policy year (the 2010/11 year) the first $8 million (2009/10: $7 million) of each claim is retained by the Association with the next $42 million (2009/10: $43 million) shared between Pool members at a rate calculated each year.

Above $50 million, the excess of loss reinsurance provides cover up to a limit of $3.05 billion.

Management of claims cost

As a mutual, the Association considers the management of claims cost for its Members with great importance. The Association's strategy is to help its Members prevent and avoid the occurrence of incidents as well as ensuring the efficient handling and management of claims when they occur. To facilitate this strategy the Association has established programmes to reduce claims risk including: information for Members on common claims and how they may be prevented, completion of inspections to review ship conditions, the pre-employment medical examinations and production of various guides for safe carriage of goods and the avoidance of incidents.

Reserving process

The Association establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions as set out in note 2 of the financial statements and is reviewed by the Audit and Risk committee. In order to minimise the risk of understating these provisions the assumptions made and techniques employed are reviewed in detail by senior management and periodically tested against third party consulting actuaries.

(b) Market Risk

The Board of the Group's subsidiary undertaking, IPIR, manages the investment risk of the majority of the Association's assets. The investment policy is set by the Board of Directors and reviewed annually. The policy reflects the risk appetite of the Association and is designed to maximise return whilst holding risk to a level deemed acceptable. The policy allows the investment manager to invest a proportion of the portfolio in assets which carry a greater risk but potentially higher return, such as equities, with the majority in safer investments such as government bonds and cash.

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities the value of which is inversely correlated to movements in market interest rates. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to Members are exposed to interest rate risk.

Interest rate risk is managed through the investment strategy and accordingly debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds. These investments typically have a short duration and terms to maturity comparing favourably to the maturity profile of liabilities. Also the Association's financing structure includes perpetual subordinated capital securities which pay a fixed interest rate. The Association has no debt with interest payments which vary with changes in interest rate.

Sensitivity analysis

It is estimated that the value of the Association's investment would decrease for the following amounts if market interest rates had increased by 100 basis points at the balance sheet dates and all assumptions had remained unchanged.

Amounts in $000	Effect on investment valuation
As at 20 February 2011	15,788
As at 20 February 2010	11,291

Equity and hedge fund price risk

The Association is exposed to price risk through its holding of equities and "fund of fund" hedge funds. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equity instruments amounted to 17 per cent (2010: 14 per cent).

The aim of the investment in the "fund of funds" is to reduce volatility through diversification. The exposure to this investment is limited by investment guidelines and at the year end amounted to $90 million (2010: $93 million).

Where available, the Association uses closing bid market values to determine the fair value of an investment holding. Unquoted investments are valued by reference to recent observable market transactions. The carrying value of non quoted equity holdings at the year end amounted to $17.7 million (2010: $16.8 million).

Sensitivity analysis

A 10 per cent increase in equity values would be estimated to have increased the surplus before tax and reserves at the year end by $19.9 million.

Currency risk

The Association is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US Dollars. The most significant currencies to which the Association is exposed are Sterling and the Euro. In order to manage this risk, the Association holds a proportion of its investments in each currency at a level to match expected future claim payments in that currency. In addition, from time to time, the Association uses forward currency contracts to protect currency exposures and maintain investment policy benchmarks.

The profile of the Association's assets and liabilities, categorised by settlement currency, at their translated carrying amount, is set out below. Certain amounts, either due to their nature, notably reinsurer's share of outstanding claims, or the existence of forward contracts, may depend on a different underlying currency.

As at 20 February 2011

Amounts in $000	US Dollar	Sterling	Euro	Other	Total
Debt securities	417,324	61,120	120,601	25,762	624,807
Equities	160,768	38,773	17,160	-	216,701
Absolute return funds	89,622	-	-	-	89,622
UCITS	198,257	15,024	22,133	-	235,414
Forward currency contracts	-	5,242	(371)	-	4,871
Cash balances	38,365	1,773	1,626	2,425	44,189
Amounts due from Members	77,832	(1)	1,523	(58)	79,296
Reinsurers' share of outstanding claims	296,269	-	-	-	296,269
Accrued interest	2,714	938	1,343	82	5,077
Sundry debtors	15,003	(3,848)	403	1,901	13,459
Gross outstanding claims	(706,480)	(51,532)	(163,137)	(183,863)	(105,012)
Other liabilities	(19,872)	(5,310)	(1,602)	(54)	(26,838)
	569,802	62,179	(321)	(153,805)	477,855

As at 20 February 2010

Amounts in $000	US Dollar	Sterling	Euro	Other	Total
Debt securities	369,769	49,397	69,499	24,938	513,603
Equities	123,584	29,410	15,461	-	168,455
Absolute return funds	93,011	-	-	-	93,011
UCITS	219,622	16,585	23,439	-	259,646
Forward currency contracts	(268)	899	1,018	-	1,649
Cash balances	19,061	1,309	2,062	7,635	30,067
Amounts due from Members	136,855	(8)	1,847	241	138,935
Reinsurers' share of outstanding claims	333,300	-	-	-	333,300
Accrued interest	2,326	880	1,120	40	4,366
Sundry debtors	20,556	(3,845)	409	1,991	19,111
Gross outstanding claims	(723,102)	(52,744)	(166,975)	(188,189)	(1,131,010)
Other liabilities	(19,707)	(510)	(1,529)	(42)	(21,788)
	575,007	41,373	(53,649)	(153,386)	409,345

Sensitivity analysis

A 5 per cent strengthening of the following currencies against the US Dollar would be estimated to have (decreased)/increased the surplus before tax and reserves at the year end by the following amounts:

Amounts in $000	Effect on surplus after tax and reserves
As at 20 February 2011	
Sterling	3,528
Euro	2,171
As at 20 February 2010	
Sterling	2,061
Euro	(151)

A 5 per cent weakening of those currencies against the US Dollar would be estimated to have the equal and opposite effect.

(c) Credit Risk

The key areas where the Association is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, are

- Amounts recoverable from reinsurance contracts
- Amounts due from Members
- Counterparty risk with respect to cash and investments

Amounts recoverable on reinsurance contracts

The Association is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Board considers the financial position of significant counterparties on a regular basis, the Reinsurance committee monitors aggregate exposure to each reinsurer and the Association has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to "A" at the time the contract is made.

Amounts due from Members

Amounts due from Members represents premium owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments

The investment policy manages the risk of default by limiting investment in instruments with a credit rating below "A" whilst also ensuring a diversification of the portfolio by asset, currency, geography, market and counterparty. The policy allows for investment in equities and absolute return funds to a limited amount. The majority of investments are in fixed interest securities and UCITS. Within these materially all investments are at least A rated with many relating to government or supra-national bodies.

The following tables provides information regarding aggregate credit risk exposure for financial assets with external credit ratings and the profile of the date at which amounts are due for settlement. The credit rating bands are provided by independent ratings agencies:

As at 20 February 2011

Amounts in $000	AAA	AA	A	Not readily available/not rated	Total
Debt securities	521,095	51,601	39,189	12,922	624,807
UCITS	235,414	-	-	-	235,414
Forward currency contracts	-	-	-	4,871	4,871
Cash balances	-	7,105	31,087	5,997	44,189
Amounts due from Members	-	-	-	79,296	79,296
Amounts due from Group Pooling arrangement	-	-	46,863	29,629	76,492
Amounts due from reinsurers	-	119,136	92,250	8,391	219,777
Accrued interest	4,531	172	369	5	5,077
Sundry debtors	-	-	-	13,459	13,459
Total of assets subject to credit risk	761,040	178,014	209,758	154,570	1,303,382
Other Assets					
Equities	-	-	-	216,701	216,701
Absolute return funds	-	-	-	89,622	89,622
Total Assets	761,040	178,014	209,758	460,893	1,609,705

As at 20 February 2010

Amounts in $000	AAA	AA	A	Not readily available/not rated	Total
Debt securities	448,107	46,037	19,147	312	513,603
UCITS	259,646	-	-	-	259,646
Forward currency contracts	-	-	-	1,649	1,649
Cash balances	-	11,418	16,769	1,880	30,067
Amounts due from Members	-	-	-	138,935	138,935
Amounts due from Group Pooling arrangement	-	-	60,377	59,652	120,029
Amounts due from reinsurers	771	118,929	104,650	1,893	226,243
Accrued interest	3,851	292	223	-	4,366
Sundry debtors	-	-	-	6,139	6,139
Total of assets subject to credit risk	712,375	176,676	201,166	210,460	1,300,677
Other Assets					
Equities	-	-	-	168,455	168,455
Absolute return funds	-	-	-	93,011	93,011
Total assets	712,375	176,676	201,166	471,926	1,562,143

The following table provides the profile of the dates at which amounts fell due for settlement.

As at 20 February 2011

Amounts in $000	Neither past due or impaired	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	624,807	-	-	-	-	624,807
Equities	216,701	-	-	-	-	216,701
Absolute return funds	89,622	-	-	-	-	89,622
UCITS	235,414	-	-	-	-	235,414
Forward currency contracts	4,871	-	-	-	-	4,871
Cash balances	44,189	-	-	-	-	44,189
Amounts due from Members	73,789	4,249	593	441	224	79,296
Reinsurers share of outstanding claims	296,269	-	-	-	-	296,269
Accrued interest	5,077	-	-	-	-	5,077
Sundry debtors	11,334	1,680	121	264	60	13,459
Total assets	1,602,073	5,929	714	705	284	1,609,705

As at 20 February 2010

Amounts in $000	Neither past due or impaired	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	513,603	-	-	-	-	513,603
Equities	168,455	-	-	-	-	168,455
Absolute return funds	93,011	-	-	-	-	93,011
UCITS	259,646	-	-	-	-	259,646
Forward currency contracts	1,649	-	-	-	-	1,649
Cash balances	30,067	-	-	-	-	30,067
Amounts due from Members	133,740	4,245	288	495	167	138,935
Reinsurers share of outstanding claims	333,300	-	-	-	-	333,300
Accrued interest	4,366	-	-	-	-	4,366
Sundry debtors	14,928	3,624	183	286	90	19,111
Total assets	1,552,765	7,869	471	781	257	1,562,143

(d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Association has adopted an investment policy which requires the maintenance of significant holdings in short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short term cash needs are monitored to ensure the most efficient investment of cash balances.

The following table provides a maturity analysis of the Group'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:

As at 20 February 2011

Amounts in $000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	624,807	-	-	-	-	624,807
Equities	216,701	-	-	-	-	216,701
Absolute return funds	-	89,622	-	-	-	89,622
UCITS	235,414	-	-	-	-	235,414
Forward currency contracts	-	4,871	-	-	-	4,871
Cash balances	44,189	-	-	-	-	44,189
Amounts due from Members	5,617	73,679	-	-	-	79,296
Reinsurers share of outstanding claims	-	102,514	67,066	93,122	33,567	296,269
Accrued interest	-	5,077	-	-	-	5,077
Sundry debtors	2,498	10,961	-	-	-	13,459
Total assets	1,129,226	286,724	67,066	93,122	33,567	1,609,705

As at 20 February 2010

Amounts in $000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	513,603	-	-	-	-	513,603
Equities	168,455	-	-	-	-	168,455
Absolute return funds	-	93,011	-	-	-	93,011
UCITS	259,646	-	-	-	-	259,646
Forward currency contracts	-	1,649	-	-	-	1,649
Cash balances	30,067	-	-	-	-	30,067
Amounts due from Members	2,194	136,741	-	-	-	138,935
Reinsurers share of outstanding claims	-	110,849	73,844	106,210	42,397	333,300
Accrued interest	-	4,366	-	-	-	4,366
Sundry debtors	4,183	14,928	-	-	-	19,111
Total assets	978,148	361,544	73,844	106,210	42,397	1,562,143

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:

As at 20 February 2011

Amounts in $000	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Gross outstanding claims	382,351	250,141	347,324	125,196	1,105,012
Other liabilities	26,838	-	-	-	26,838
Total liabilities	409,189	250,141	347,324	125,196	1,131,850

As at 20 February 2010

Amounts in $000	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Gross outstanding claims	376,150	250,580	360,409	143,871	1,131,010
Other liabilities	20,311	1,377	100	-	21,788
Total liabilities	396,461	251,957	360,509	143,871	1,152,798

(e) Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association has engaged Thomas Miller (Bermuda) Limited as managers to document all key processes and controls in a procedural manual. This manual is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Audit and Risk Committee. A human resource manual and including all key policies have also been documented.

(f) Limitation of the sensitivity analysis

This sensitivity analysis shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

(g) Fair value estimations

CICA 3862 requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (that is, prices) or indirectly (that is, derived from prices)
Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

All of the Association's financial assets and liabilities that are measured at fair value at both 20th February 2011 and 20th February 2010 fall into the following categories:

Amounts in $000	**2011**	2010
Level 1	**198,998**	151,616
Level 2	**954,714**	867,909
Level 3	**17,703**	16,839
	1,171,415	1,036,364

The movement in Level 3 is as a result of fluctuations in the exchange rate since the shares are denominated in sterling. The fair values of financial instruments traded on the active markets are based on quoted bid prices as at the balance sheet date. All valuations are taken from external price feeds based upon market prices or broker quotes.

Note 4 – Capital management

The Association maintains an efficient capital structure from a combination of Members' funds (reserves) and long term funding (Perpetual Subordinated Capital Securities), consistent with the Association's risk profile. The Association's objective is to maintain sufficient capital to ensure it is able to continue as a going concern, meet regulatory requirements and maintain an "A" rating with Standard and Poor's, with a substantial margin in each case.

The Association monitors available capital and its funding structure in the light of the prevailing economic environment, the risk associated with its asset holdings, and regulatory developments impacting on the Association.

The Association's principal regulator is the Financial Services Authority ("FSA") in the United Kingdom. Under the FSA's ICA regime the Association 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 over one year or a longer time frame with an equivalent probability. Throughout the period the Association complied with the FSA's capital requirements and the requirements in the other countries in which it operates.

The issue of Perpetual Subordinated Capital Securities allowed the Association to strengthen its capital base in line with its objectives. The capital issued qualifies as tier one capital for the purposes of the FSA requirements. Its purpose is to provide long term capital without forming part of ongoing operational cash requirements.

At the year end the Association's capital resources included reserves of $379 million (2010: $311 million) and

Note 5 – Calls and premiums

Amounts in $000	**2011**	2010
Mutual		
Mutual premium	**298,141**	319,111
Supplementary calls	**140**	63,316
Return premiums	**(975)**	(8,398)
Release charges	**5,354**	8,156
	302,660	382,185
Fixed premium		
Chartered vessels	**45,285**	48,515
Owned vessels	**12,301**	10,396
US Oil Pollution	**4,545**	6,087
	62,131	64,998
	364,791	447,183

Note 6 – Reinsurance premiums

Amounts in $000	**2011**	2010
Market underwriters	**70,218**	65,335
Other reinsurance arrangements	**-**	10,600
	70,218	75,935

Note 7 - Net claims incurred

Amounts in $000	**2011**	2010
Gross claims paid:		
Members' claims	**297,541**	316,560
Group's pooling arrangements	**15,142**	49,703
	312,683	366,263
Less reinsurance recoveries:		
Group's pooling arrangements	**39,787**	28,989
Market underwriters	**33,502**	7,554
	73,289	36,543
Net claims paid	**239,394**	329,720
Movement in provision for outstanding claims:		
Provision carried forward	**1,105,013**	1,131,010
Less: Provision brought forward	**1,131,010**	1,050,740
	(25,997)	80,270
Less: Movement in reinsurer's share of gross outstanding claims		
Provision carried forward	**296,269**	333,300
Less: Provision brought forward	**333,300**	243,274
	(37,031)	90,026
Change in provision for net outstanding claims	**11,034**	(9,756)
Net incurred claims	**250,428**	319,964

Note 8 – Operating expenses

Amounts in $000	**2011**	2010
Residual management fee	**11,820**	12,558
Directors' meetings	**2,407**	2,055
Managers/Agent travel	**606**	602
Sales and marketing	**585**	434
Publications	**182**	229
Printing and telecommunications	**283**	217
Correspondent charges	**9**	6
Legal and professional expenses	**2,133**	2,283
Bank and financial expenses	**444**	686
Loss prevention initiatives	**134**	190
Ship inspection initiatives	**398**	523
Operating branch and subsidiary costs	**786**	977
Other expenses	**561**	292
	20,348	21,052
Included within operating expenses are the following:		
Directors' Fees	**866**	823
Auditors' fees - payable for the audit of the parent company	**156**	163
Auditors' fees - payable for the audit of subsidiaries	**135**	122
Auditors' fees - other services	**109**	116
	1,266	1,224

Note 9 – Investment return

Amounts in $000	**2011**	2010
Interest on fixed income securities	**16,840**	12,441
Bank deposit interest	**52**	22
Dividends receivable	**2,537**	3,841
Profit on sale of investments	**6,719**	1,867
Other investment charges	**(43)**	(563)
	26,105	17,608
Unrealised gains on investments	**31,349**	48,275
Exchange gain	**12,055**	12,782
	69,509	78,665

The investment portfolio incorporates holdings in a number of different currencies designed to protect the Association from fluctuations within claims outstanding as a result of movements in exchange rates. This leads to the exchange gain or loss noted in the table above. The associated fluctuations within claims outstanding are included within the change in provision for net outstanding claims (see note 7).

Note 10 – Taxation

Amounts in $000	**2011**	2010
Taxation charge based on investment income in the current financial year	**(1,229)**	(1,663)
Adjustment in respect of prior periods	**(121)**	817
Overseas Taxation	**(66)**	-
Deferred taxation on investment losses	-	(817)
	(1,416)	(1,663)
Surplus before taxation	**64,033**	76,838
Expected taxation charge at 28 per cent	**(17,929)**	(21,515)
Underwriting result not subject to taxation	**987**	2,008
Portion of investment income not subject to taxation	**15,648**	17,844
Net adjustment in respect of prior periods	**(122)**	-
Taxation charge	**(1,416)**	(1,663)

Note 11 – Investments

Amounts in $000	**2011**	2010
Listed Investments		
Fixed income securities	**624,807**	513,603
Shares and other variable income securities	**198,998**	151,616
Undertakings for Collective Investments of Transferable Securities (UCITS)	**235,413**	259,646
Investments in unit trusts	**89,622**	93,011
Total listed investments	**1,148,840**	1,017,876
Cost $1,034,700 (2010: $952,680)		
Other Investments		
Thomas Miller Holdings Limited	**17,683**	16,819
Hydra Insurance Co. Ltd	**20**	20
Open forward currency contracts	**4,872**	1,649
Total investments	**1,171,415**	1,036,364

The market values of the listed investments, which are held for trading, are determined by reference to published price quotations in major recognised international stock exchanges.

Of the fixed income securities $410.8 million (2010: $246.7 million) relate to government securities.

The investment in Thomas Miller Holdings Limited represents approximately 15 per cent of the share capital of the entity. Thomas Miller Holdings is the ultimate parent of Thomas Miller (Bermuda) Limited which provides management services to the Association (see note 20). Since there is no active market for the shares in Thomas Miller Holdings Limited, the investment is held at cost, less provisions for any impairment. The increase in valuation during the year is the result of fluctuations in the exchange rate since the shares are denominated in sterling.

Open forward currency contracts represent potential losses or gains on forward contracts, which have been entered into for the purpose of protecting the assets of the Association. These contracts were matched against currency and asset holdings in excess of the amount of the contracts. The contracts have been re-valued at 20th February 2011 using exchange rates prevailing at that date.

Note 12 – Sundry debtors

Amounts in $000	**2011**	2010
Reinsurance and pool recoveries	**8,399**	12,992
Funds with representatives	**176**	185
Prepayments and other debtors	**4,884**	5,934
	13,459	19,111

Note 13 - Outstanding claims

Amounts in $000	**2011**	2010
Closed policy years	**290,801**	242,621
Open policy years		
2010	**250,013**	-
2009	**152,066**	250,777
2008	**115,864**	189,931
2007	**-**	114,381
	808,744	797,710

Gross outstanding claims		
Members' claims	**1,003,585**	1,032,825
Other clubs' Pool claims	**101,428**	98,185
	1,105,013	1,131,010
Reinsurer's share of gross outstanding claims		
Group excess of loss reinsurance	**(109,777)**	(111,762)
Pool recoveries	**(76,492)**	(111,538)
Other reinsurers	**(110,000)**	(110,000)
	(296,269)	(333,300)
Net outstanding claims	**808,744**	797,710

The total of outstanding claims of $1,105 million (2010: $1,131 million) includes a forecast of unreported claims of $319 million (2010: $341 million) on open and closed policy years and an estimate of $30 million (2010: $30 million) for future claims management costs. Claims outstanding includes provision for IBNR claims which is set by reference to, amongst other factors, standard actuarial techniques and projections. The IBNR reserve includes an amount for Occupational Disease claims amounting to $50 million (2010: $50 million). Occupational Disease claims have a significant latency period making them particularly uncertain for reserving purposes. The reserve has been set with reference to industry studies and the Association's historical experience. These studies include a projection of the number of deaths expected, the probability of claims being made and the expected cost of those claims.

Other reinsurance includes the recovery of $110 million relating to a multi year reinsurance policy.

Note 14 – Creditors

Amounts in $000	**2011**	2010
Reinsurance Premiums	**10,072**	9,406
Members' balances	**-**	100
Taxation	**677**	470
Others	**15,152**	10,881
	25,901	20,857

Note 15 – Provisions

Amounts in $000	**2011**	2010
Provisions brought forward	**931**	1,627
Amounts paid in the year	**-**	(700)
Foreign currency translation	**5**	4
	936	931

Provisions represent the best estimate of future payments, excluding claims payments, arising from a past event where the final payment is likely but not certain. The amount provided relates to disputes arising in the ordinary course of business of the Club, and the exposure to loss in excess of the amount accrued is minimal.

Note 16 - Reserves

Amounts in $000	**2011**	2010
Open policy years		
2010	**(17,984)**	-
2009	**48,354**	(32,198)
2008	**92,340**	39,291
2007	**-**	(10,685)
	122,710	(3,592)
Contingency Account	**204,058**	211,276
Catastrophe reserve	**46,549**	42,891
Other comprehensive income	**5,436**	-
US Oil Pollution AP reserve	**-**	47,079
Reinsurance Retention reserve	**-**	13,046
Subtotal	**378,753**	310,700
Statutory Reserve	**240**	240
Perpetual subordinated capital securities	**98,862**	98,405
	477,855	409,345

During the year a resolution was passed by the Board to close the US Oil Pollution AP reserve and the Reinsurance Retention reserve into the Contingency account.

The reserves are available to meet any deterioration in the open and closed policy years and to contribute to over-spill or Pool claims for which no specific provision has been made. If necessary these funds may be supplemented by calls upon Members (other than those on a fixed premium basis) in accordance with Rules 19 to 25 inclusive. $1.5 million of the reserves are included in the Singapore Branch financial statements, as required by the Singapore regulator.

Reconciliation of total reserves

Amounts in $000	**2011**	2010
Reserves at the beginning of the year	**310,700**	235,527
Surplus for the year	**62,617**	75,173
Gains on forward currency contracts not included within Statement of operations	**5,436**	-
Reserves at the end of the year	**378,753**	310,700

Note 17 – Perpetual subordinated capital securities

Amounts in $000	**2011**	2010
Issue of perpetual subordinated capital securities	**100,000**	100,000
Related transaction costs	**(1,138)**	(1,595)
	98,862	98,405

The securities were issued on 20th August 2008 and are listed for trading on the London Stock Exchange. Interest payable on the securities amounts to 9 per cent per annum until 2013. Following 2013, the interest rate will vary with LIBOR rates. The securities are perpetual but can be redeemed at the option of the Association after a five year non call period.

The structure of the perpetual capital securities as Innovative Tier 1 capital means that the Association has the right, but not the obligation, to defer interest payments if a Regulatory Intervention occurs or the Solvency Condition (being 125% of the Associations Enhanced Capital Requirement) is not met. No interest will accrue on any Deferred Interest Payment. Any Deferred Interest Payment may be satisfied at any time at the Association's election, provided that the Association must satisfy such Deferred Interest Payment on the earliest of the following to occur:

- the date on which a Regulatory Intervention no longer applies and the Association meets and, after payment of the Deferred Interest will meet, the Solvency Condition;
- a distribution of assets is made to Members of the Association generally (other than in their capacity as Senior Creditors);
- the date on which a return of Surplus Calls is made;
- any payment is made on any securities or other obligations which rank pari passu with or junior to the Capital Securities;
- a redemption of the Capital Securities; and
- winding-up.

Where an Interest Payment is deferred, the Association will be restricted from making payments on, or redeeming, any Parity Securities or junior obligations unless and until it pays (including by way of alternative satisfaction mechanism, ASM) in full all current and Deferred Interest Payments.

The ASM provides that investors should always receive payments made in respect of Capital Securities in cash or by way of an issue to them of payment in kind, PIK, securities.

For Deferred Interest Payments the Association must, and for any other Interest Payments the Association may, use any of the following or combination thereof (as the Board of Directors deems appropriate) to satisfy that payment:

- out of the amounts raised after the relevant Interest Payment Date from new Capital Items which the Association determines in its sole discretion remain available for such use at that time;
- by issuing PIK Securities (ie a further issue of fully-fungible Capital Securities) to holders; or
- by issuing Other Payment Securities (ie a new issue of securities pari passu with the Capital Securities) – such amount to be calculated by a Calculation Agent appointed at the time - to the Trustee, which will then be sold to purchasers for a cash amount.

Note 18 – Designated reserves

In recent years the increase in the Group Pool retention has led the member Associations of the International Group of P&I Clubs to enter into a joint agreement to provide each other with additional security. Under the Agreement this Association maintains a letter of credit for $32.2 million to cover its share of the increased Group exposure.

Note 19 – Average expense ratio

In accordance with Schedule 3 of the International Group Agreement, the Association is required to disclose its Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment return.

The operating expenses include all expenditure incurred in operating the Association, excluding expenditure incurred in dealing with claims. The premium income includes all premiums and calls. The investment return includes all income and gains whether realised or unrealised, exchange gains and losses less tax, custodial fees and internal and external investment management costs.

The Association does not charge internal investment management costs to investment income but includes these costs within the management fee within operating expenses. To calculate the ratio, the figures are those disclosed within the statement of operations except that the internal investment management costs are taken as being the subsidiary company's management fee.

For the five years ended 20th February 2011, the ratio of 9.16 (2010: 9.37) has been calculated in accordance with the Schedule and the guideline issued by the International Group and is consistent with the relevant financial statements.

Note 20 – Related party transactions

The Association has no share capital and is controlled by the Members who are also the insured. The subsequent insurance transactions are consequently deemed to be between related parties but these are the only transactions between the Association and the Members.

All of the Directors (except two who are Bermuda residents) 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 Association.

Thomas Miller (Bermuda) Limited provides management services to the Association. This company is a subsidiary of Thomas Miller Holdings Limited in which the Association holds an investment.

All related party transactions are undertaken on an arms length basis.

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited

Incorporated under the laws of Bermuda

Notice of Meeting

Notice is hereby given that the forty second Annual General Meeting of the Members of the Association will be held at Hotel Grande Bretagne, Athens on Monday 17th October, 2011 at 9.00 am for the following purposes:-

To receive the Directors' Report and Financial Statements for the year ended 20th February 2011 and if they are approved, to adopt them.

To elect Directors.

To appoint auditors and authorise the Directors to fix their remuneration.

To consider the Directors' remuneration.

To transact any other business of an Ordinary General Meeting.

By Order of the Board

D.W.R. Hunter
Secretary

9th May 2011

Note:
A Member entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote instead of him. The instrument appointing a proxy shall be left with the Secretary at Thomas Miller (Bermuda) Ltd, 1st Floor Chevron House, 11 Church Street, Hamilton, HM11, Bermuda not less than 12 hours before the holding of the meeting.

Registered Office and business address of the Association

1st Floor Chevron House,
11 Church Street,
Hamilton HM11, Bermuda

Telephone: +1 441 292 4724

Managers and Officer

Managers: Thomas Miller (Bermuda) Ltd

Secretary of the Association: D.W.R. Hunter

The United Kingdom Mutual Steam Ship
Assurance Association (Bermuda) Limited

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