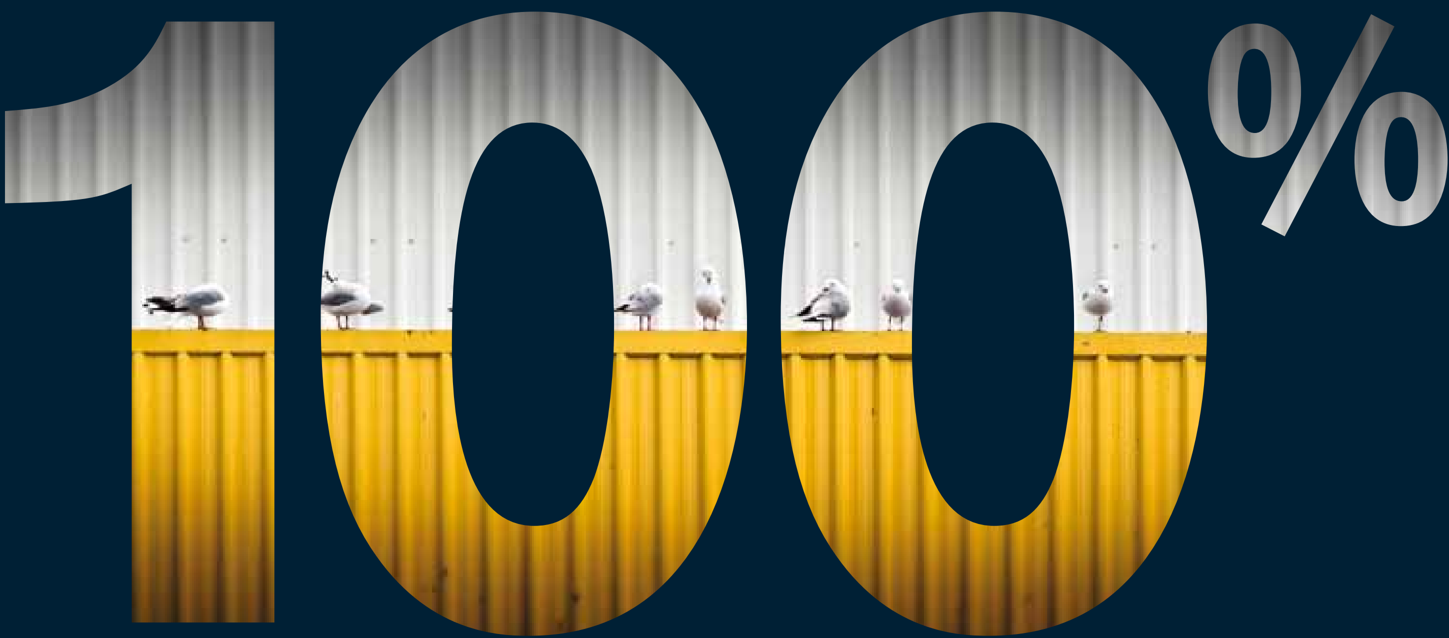
UK P&I CLUB

Directors’ Report & Financial Statements

for the year ended 20th February 2012



100% Clarity

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100% Clarity

I would like to take this opportunity to thank all of our Members for the support they have shown us over recent years. As a Board, we are determined that the UK Club should be the leading shipowner controlled provider of P&I insurance and other services.

Chairman's statement

Good result in difficult times
This year we report another operating surplus and a further increase in the Club's free reserves and hybrid capital to $486 million. This level of capital puts our Club's financial strength at the top level of its peer group in the P&I sector. This result is particularly pleasing as it comes in a year which has seen results elsewhere in the market adversely affected by an increase in claims and volatile investment returns.

Overall the Club produced a surplus of $11 million. The main driver behind this positive outcome was the continuing improvement in the claims reserves on the more recent policy years and the early indications that 2011 will be a low claims year.

Lower claims
The improving claims position on all policy years since 2008 has been largely brought about by a reduction in the number of claims. Claims on the 2011 policy year were down 5 per cent on 2010, itself a low year for the number of claims, and some 30 per cent lower than the number of claims in 2007. Most significantly, the Club's exposure to the larger claims (those exceeding $2 million) was below the experience of recent years. The total cost of larger claims retained by the Club in 2011 was approximately 15 per cent of the historical average.

Clearly the reduction in world trade since the boom years in shipping in the earlier part of the decade has had a significant impact on the volume of claims. There is also an element of good fortune in the 2011 result, but we have been able to contribute to that reduction by careful management of our risks; from monitoring the Club's entry criteria, an extensive loss prevention program, and strong claims management, through to the purchase of reinsurance designed to avoid the problems we faced when claims spiked at the height of the shipping boom. Looking back now to those high claims years, it is interesting to note that even at that time the UK Club's record on the International Group Pool was well below the Club's share of the Pool, which explains why the UK Club still has the largest credit balance on the Pool.

Despite the improving claims position we have maintained our prudent approach to claims reserving. The 2011 policy year is only one year old and given that policy years can develop adversely after the first year, we have taken a cautious approach when setting the expected overall claims outcome. Nonetheless, we believe the year will continue to improve and this is a comforting position to be in as we enter the new 2012 policy year which could produce a higher level of claims.

Claims inflation
We must not, however, allow the reduction in claims frequency to cause us to drop our guard against future claims inflation. Underlying claims inflation measured in terms of average cost per claim has been running at about 5 per cent each year, with some categories of claims inflating at rates of up to 15 per cent. While the shipping markets remain depressed, it is expected that the total cost of claims will remain lower because inflation in the costs of individual claims is offset by reduced frequency. However, improvements, even in regional markets eg intra-Asian trade or in particular shipping sectors, could change the position from one year to the next – which is why we must ensure that the premium charged by the Club keeps moving forward at subsequent renewals.

Comprehensive reinsurance
Another measure we have taken to ensure the Club is protected against an adverse movement in claims is the introduction of a comprehensive reinsurance programme. Using our internal model developed for Solvency 2 compliance to design our own reinsurance programme, the reinsurances we have in place will protect the Club from a run of larger than usual claims, whether within our own retention or the Pool. They will also protect the Club from a one-off very large claim. Although these reinsurances will not turn a bad year for claims into a good year, they will most definitely protect the Club from the worst effects of a surge in claims.

Positive investment return
Investment income contributed $18.6 million to the overall result. This is a lower return than last year, but one which reflects our decision to reduce risk in our investment portfolio. Although the Club's investment portfolio was not directly exposed to the most affected areas, we decided, in the light of the ongoing Eurozone crisis and heightened geopolitical concerns, to lower our investment risk by reducing the proportion of the funds held in equities from about 15 per cent to about 10 per cent of the portfolio. The proceeds from the sale of the equities were invested in short duration fixed interest securities. Following a strong rally in equities since the end of last year, these measures have inevitably reduced the return for the policy year, but we believed that preservation of our Members' capital was the sensible approach to have adopted at a time of uncertainty and market volatility.

Balanced underwriting

Most importantly of all, we have achieved a balanced underwriting result for the second successive financial year with a combined ratio of 97 per cent. This very positive result underlines the Club's commitment to its long term target of maintaining a combined ratio of 100 per cent or better.

Controlled growth

Our return to the top level of the P&I market has been rewarded by increased support from new and existing Members. Tonnage was up over the year and now stands at 112 million gross tons of owned tonnage and around 80 million gross tons of chartered tonnage. 2011 was also another year of higher than usual turnover of tonnage at around 20 per cent of the total owned tonnage. This reflects the increased demolition of older ships on the one hand and a high number of new buildings delivered during the year on the other.

Regulatory affairs

As the deadline for Solvency 2 compliance approaches the Club continues to make good progress. In addition to working towards the approval of our internal model through the Internal Model Approval Process (IMAP), we have also recently announced our plans to restructure the Club's group of companies. As a result of this project the UK Club Europe will become the sole provider of direct insurance business to the UK Club Members. The reorganisation will not affect UK Club Members' terms of entry, cover, premium or availability of funds to meet claims payments. They continue to be Members of the UK Club Bermuda, but will be insured by UK Club Europe. The Bermuda Club will become the reinsurer of UK Europe and continue to be the holding company, controlled by its Members. The Club's reinsurance subsidiary in the Isle of Man, IPIR, will become dormant. By reducing the number of separately regulated insurers from two to one, we aim to streamline our governance, reduce our compliance costs and more efficiently manage the Club's solvency capital requirements.

It is worthwhile noting that the $100 million Hybrid Capital raised in August 2008 has been and will continue to be a significant contributor to the Club's Tier One capital required under Solvency 2. Of course, compliance with Solvency 2 does not end with capital requirements and the Board and its committees have been taking steps during the year to ensure that we meet all our worldwide regulatory requirements.

Piracy and Sanctions
During the year we have also continued to follow and provide advice to our Members on many industry issues including the continuing challenges brought by piracy risks in the Gulf of Aden, Indian Ocean and more recently in West Africa, as well as monitoring the new sanctions regimes affecting, in particular, the export of oil and petrochemicals from Iran. In this debate, we and the other IG Clubs have been drawing the attention of governments to the potential risks to innocent third parties flowing from the targeting of liability insurance in sanctions legislation but with little evident success thus far.

Listening
In terms of our day to day activities the Directors of the Club are never complacent about what the Club does, nor how it is perceived in the market. Together with the Managers we are working hard to improve the Club in a number of ways. During 2011 we undertook a Satisfaction Survey, the results of which were published on the Club's website. The summary shows that the average Member satisfaction score was high at 81 per cent and that the broker score, although a little lower, was still a commendable 76 per cent. By listening to the Members and their brokers we have identified those areas where the Club must improve. Your Board and the Managers will be working hard to ensure the Club scores even higher in the next survey.

Governance
In each one of my reports to you since I took over the Chairmanship in 2008, I have commented on the growing burden of work which falls on the Board and in particular on our main committees. 2011 was no exception. I would like to express my thanks particularly 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 Ottmar Gast who has joined this group following Patrick Decavèle's retirement last year.

I would also like to express my thanks to those Directors who retired from the Board in the past 12 months and make particular mention of Heinrich von Rantzau and Amir Azizan whose contributions to the Board and the affairs of the Club have been invaluable.

In October last year I was delighted to be able to welcome seven new Directors to our Board; Ibrahim Güngen of Güngen Maritime & Trading A/S; Grahaeme Henderson of Shell International Trading and Shipping Company Limited; Datuk Nasarudin Idris of MISC Berhad; Ng Yat Chung of Neptune Orient Lines Limited; Paul Pathy of Fednav Limited; Eamonn Rothwell of Irish Continental Group, plc; and Nikolaus Schües of Reederei F. Laeisz GmbH.

The 2011 intake of Directors is a very strong addition to our Board and I look forward to their valuable contribution over the coming years.

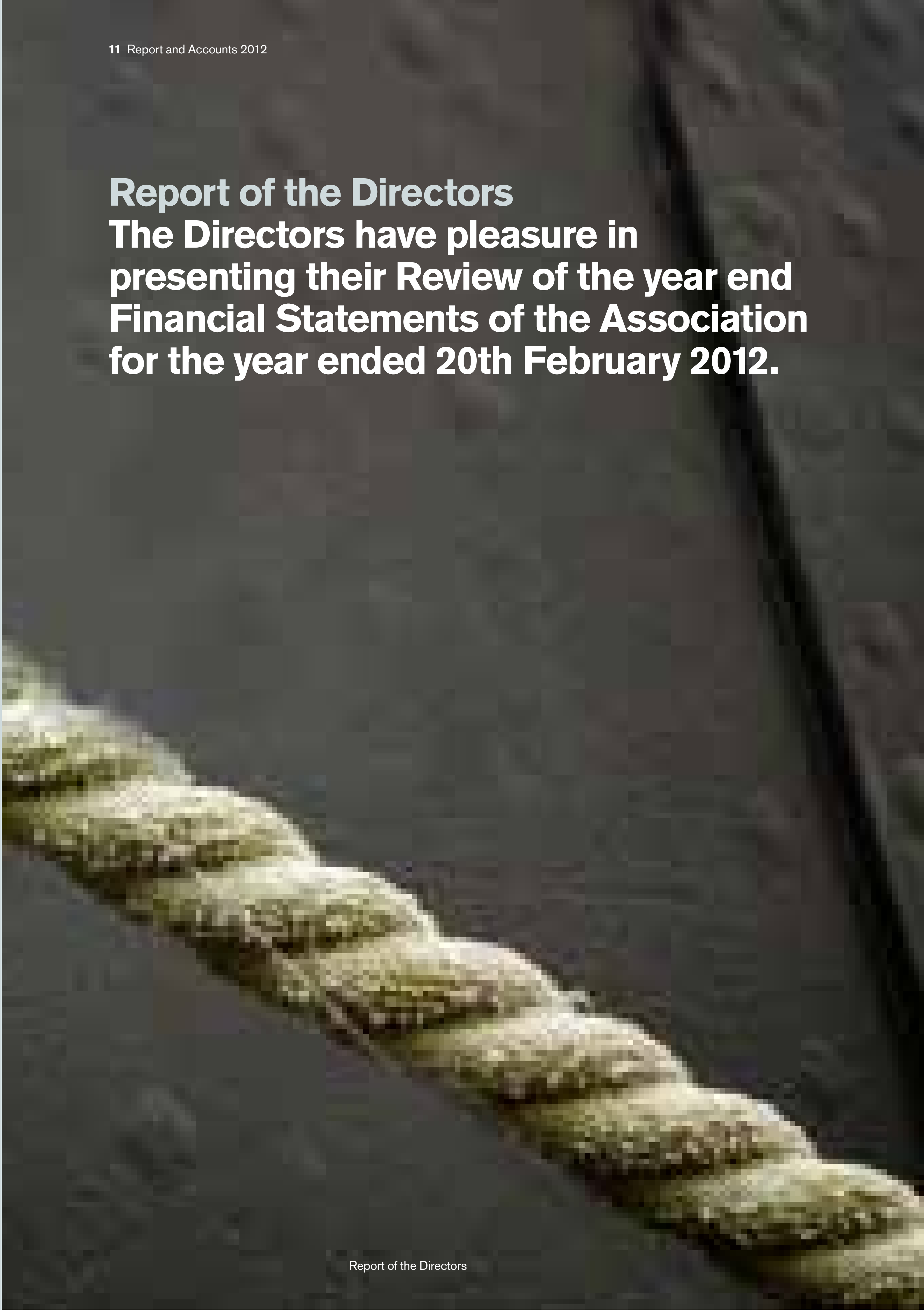
In conclusion
Our commitment to be the leading shipowner controlled provider of P&I insurance and other services is the guiding principle for everything we do whether it is the competitive insurance and services that we provide to our members worldwide or the strengthening of the Club's capital position which has become absolutely essential for any insurance provider in the modern regulatory environment. That drive and determination is keenly felt by the Directors and Managers alike. In these uncertain times for shipping we are making every effort to ensure that the UK Club remains at the forefront of the P&I market.

Dino Caroussis, Chairman

Report of the Directors

Report of the Directors

The Directors have pleasure in presenting their Review of the year end Financial Statements of the Association for the year ended 20th February 2012.



Report of the Directors

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 2012 the owned tonnage entered in the Association and through its subsidiary, The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited (UK Europe), on mutual terms totalled approximately 112 million gt (104 million in 2011). 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 Association's operations in accordance with an agreed schedule of reports. The Board also considers and decides issues of policy on general matters concerning the Association 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, International Group matters, 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 & Risk Committee of the Board meets 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 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.

The members of the Strategy and Audit & Risk Committees are 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 Association's wholly owned European subsidiary's board (UK Europe) is made up from shipowner directors who are also Directors of the Association.

The Ship and Membership Quality Committee in addition to advising on the ship inspection and condition survey schemes, provides the board with advice on the criteria used to set the standards for membership of the Club and the direction of the Club's loss prevention initiatives. The Committee is chaired by the Club Chairman and includes seven other Directors.

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 the operation of the Club's war risks cover where urgent decisions may be required.

The International P&I Reinsurance Company Limited (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.

Directors

The present Directors of the Association are shown on page 15. Also shown are those who retired from the Board since 20th February 2011. 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 G. Bottiglieri, H. Franco, O. Gast, S.L. Ghomri, R.C. Gillett, M. Itkin, J. Liberty, P. Louis-Dreyfus, N. Mukae, A. Olivier, H. Takahashi, N. Tsakos and Mrs K. Siggins will retire at the forthcoming Annual General Meeting in Paris on 29th October 2012. All these Directors have offered themselves for re-election.

In October 2011 Mr C.I. Caroussis was re-elected as Chairman of the Board of Directors and Messrs E. André, O. Gast and A.K. Olivier were re-elected as Deputy Chairmen.

Board of Directors

Chairman and President

C.I. Caroussis	Chios Navigation (Hellas) Ltd, Piraeus

Deputy Chairmen and Vice-Presidents

E. André	Suisse-Atlantique SA., Renens/Lausanne
O. Gast	Hamburg Südamerikanische Dampfschifffahrts-Gesellschaft K.G., Hamburg
A.K. Olivier	Grindrod Limited, Durban

Directors

F.A.H. Ali	Kuwait Oil Tanker Co. S.A.K., Kuwait
E.N. Ambrosov	OAO Sovcomflot, Moscow
G. Bottiglieri	Giuseppe Bottiglieri Shipping Company S.p.A, Naples
M.L. Carthew	Chevron Shipping Company LLC, San Ramon
H.V. Franco	Harley Marine Services, Inc, Seattle
A. Frangou	Navios Maritime Holdings Inc, Piraeus
S.L. Ghomri	Hyproc Shipping Company SPA, Oran
R.C. Gillett	Hamilton, Bermuda
I. Güngen*	Güngen Maritime & Trading A/S, Ankara
G. Henderson*	Shell International Trading and Shipping Company, London
N. Idris*	MISC Berhad, Kuala Lumpur
N.G. Inglessis	Samos Steamship Co., Athens
M.R. Itkin	Overseas Shipholding Group Inc, New York
A.C. Junqueira	Petrobras Transporte SA – Transpetro, Rio de Janeiro
C.E. Kertsikoff	Eletson Corporation, Piraeus
J.B. Lee	Korea Line Corporation, Seoul
A.M. Lemos	Unisea Shipping Ltd, Athens
J. Liberty	Royal Caribbean Cruises Ltd, Miami
P. Louis-Dreyfus, OBE	Louis Dreyfus Armateurs S.A.S., Paris
A.C. Margaronis	Diana Shipping Inc, Athens
M. Morooka	Nippon Yusen Kaisha, Tokyo
N. Mukae	Kumiai Senpaku Co., Ltd, Tokyo
Y.C. Ng *	Neptune Orient Lines Ltd, Singapore
P. Pathy*	Fednav Limited, Montreal
E. Rothwell*	Irish Continental Group Plc, Dublin
N.H. Schües*	Reederei F.Laeisz GmbH, Hamburg
K. Siggins	Hamilton, Bermuda
H. Takahashi	JX Tanker Company Ltd, Yokohama
N.P. Tsakos	Tsakos Energy Navigation Limited, Athens
P.A. Vasilchenko	Far Eastern Shipping Company, Vladivostok
Zhang Liang	COSCO (Hong Kong) Group Ltd, Hong Kong

* New Directors elected in 2011 financial year

The following Directors have left the Board since 20th February 2011: Messrs A. Azizan and H. von Rantzau.

Performance for the year
to February 2012

A free reserve ratio of 162 per cent, which places it in the top level of the International Group in terms of financial strength.

The financial year to 20th February saw a further increase in the Club's free reserves and hybrid capital to $486 million. As last year the key driver behind this improvement was the Club's improved underwriting result, evidenced by the combined ratio for the year of 97 per cent. As is explained later in the Review, the result reflects continuing improvement in the claims reserves on the more recent policy years underpinned by a consistent approach to underwriting discipline and the quality of the Club's membership. The Club now has $1.6 billion in total assets and a free reserve ratio of 162 per cent, which places it in the top level of the International Group in terms of financial strength. The investment return for the year was 1.5 per cent. This relatively modest result compared to last year reflected the desire of the Board to reduce risk and therefore return in a year of considerable turmoil in financial markets.

Underwriting

In achieving a steady and balanced growth in tonnage the Club has maintained underwriting discipline.

Owned entries

The Club's restored financial position has raised confidence and with this has come an increased interest from new and existing members.

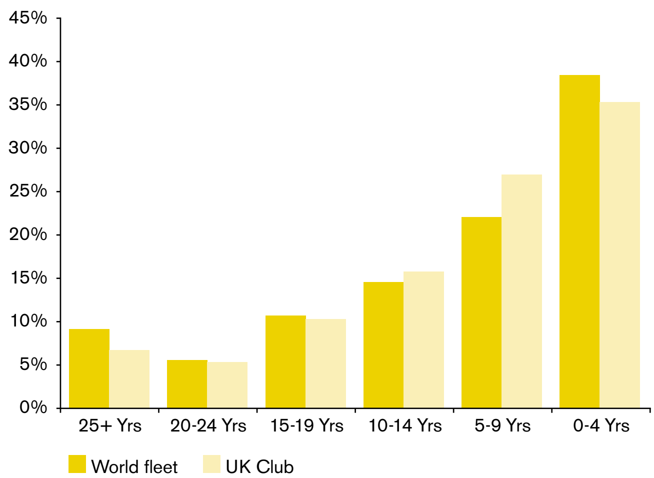
During 2011 the Club took on a steady stream of new tonnage and this was followed by an encouraging 2012 renewal, which was one of the most successful in recent years. 2011 was also another year of high turnover in tonnage at around 20 per cent of the entered mutual tonnage. This was driven by high levels of scrapping on the one hand and new building deliveries on the other. Although the P&I market commentators tend to concentrate on the renewal result, activity during the year involves much bigger movements. As a result of this activity and the renewal gains, the Club's tonnage profile by age, shown below, is now the youngest that it has ever been.

The growth in the Club's tonnage has not been at the expense of quality. In achieving a steady and balanced growth in tonnage the Club has maintained underwriting discipline and continued to decline business which does not come up to the required standard.

The Club ended the financial year with owned tonnage standing at 112 million gross tons with charterers representing an additional 80 million gross tons.

Note: The free reserve ratio is based on free reserves including hybrid capital plus net outstanding claims divided by net outstanding claims.

Fig. 1 Age profile of Club tonnage relative to world fleet



The Club's entered fleet continues to represent the broad spread of shipping in terms of trade sector and geographic location.

Charterers

Charterers' entries are now an important part of the Club's overall activity and make a positive contribution to the financial results. The Club has enhanced its focus on this sector by providing explanatory brochures to explain both liabilities and the corresponding cover available to charterers. The Club website has a dedicated charterers' section that carries these materials and which is regularly updated with advice and loss prevention material.

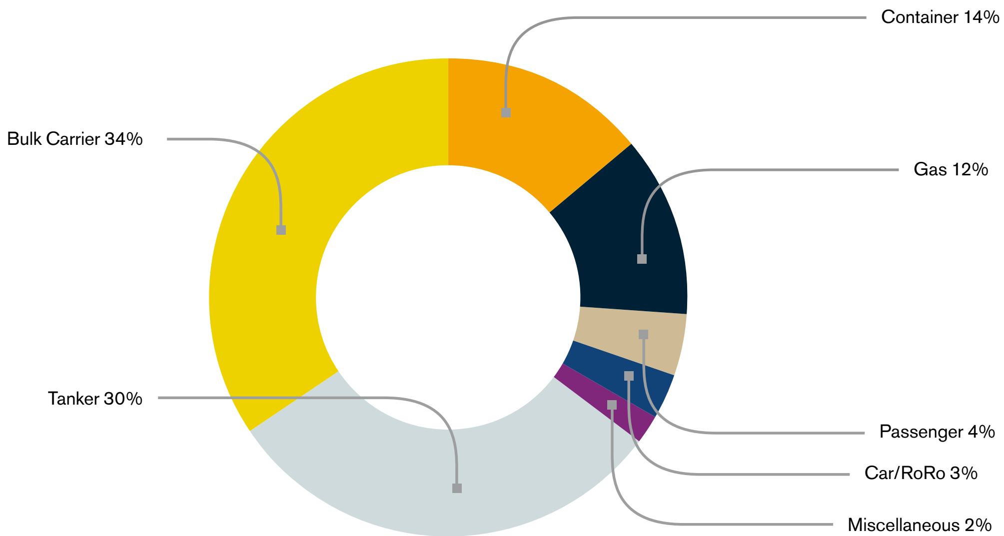
UK Club fleet profile

The Club's entered fleet continues to represent the broad spread of shipping in terms of trade sector and geographic location.

In terms of gross tonnage around 50 per cent of the Club fleet is controlled by European owners, 38 per cent by owners from Asia Pacific and 12 per cent by owners based in the Americas.

In terms of ship type, the Club fleet is broadly representative of the world fleet. However, these high level figures mask the Club's strength in particular sectors. For example, its entered fleet of gas carriers represents almost a third of the world fleet for this sector.

Fig. 2 Percentage breakdown of Club owned entries by sector by tonnage at 20th February 2012



Members scored the Club higher than any of its competitors on global coverage, quality of people and expertise and industry leadership.

Working with members and brokers

Last year, the Club published the findings of its Member and Broker Satisfaction Survey. Overall, 72 per cent of members scored the Club at 8 out of 10 or higher for overall satisfaction and 90 per cent of members thought the Club's performance was as good as or better than the year before. More than two-thirds of members scored the Club higher than any of its competitors on global coverage, quality of people and expertise and industry leadership. The Club also scored highly with brokers, with more than half giving the Club 8 out of 10 or better for overall satisfaction. 90 per cent of brokers also thought that the Club's performance had remained the same or improved since the year before. The results of the survey are now being analysed to look at ways that the Club's performance can be further improved and the Club will conduct another Member and Broker survey in 2013 to measure progress.

Member survey scores:

FIg. 3 Overall Club satisfaction

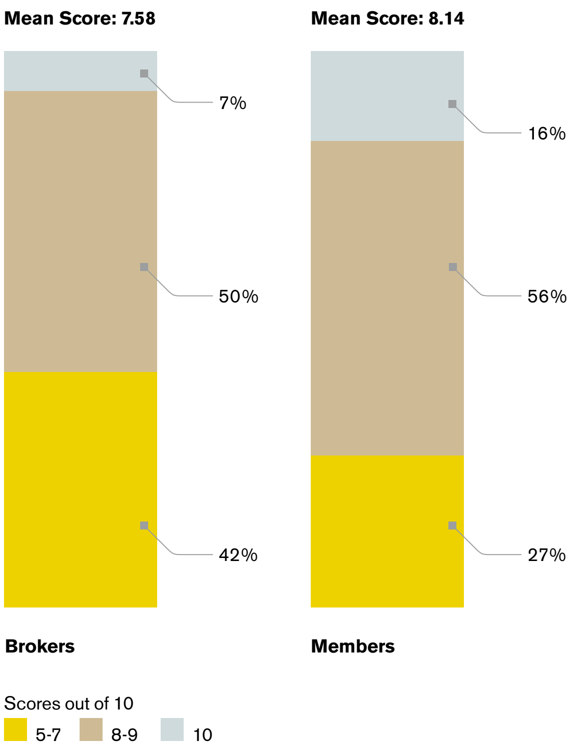
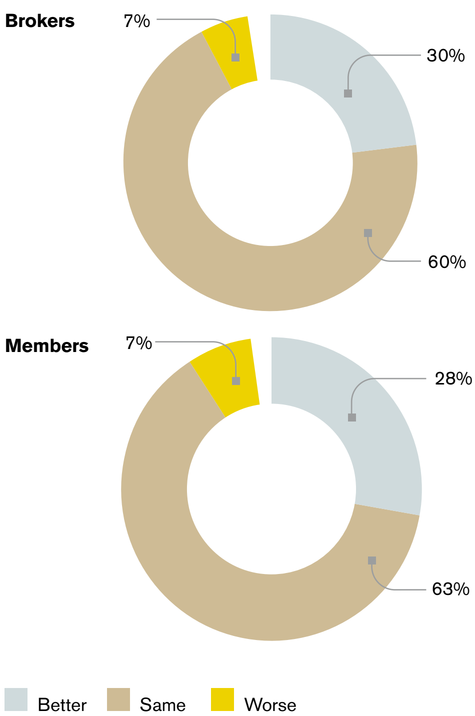


Fig. 4 Annual performance



As more than half of UK Club members choose to enter through an intermediary, broker relations are extremely important.

Meeting members

Every year, the Club's claims and underwriting staff travel extensively meeting members and brokers, as well ship owners and operators who are not yet members of the Club. As well as these personal meetings, the Club also holds a number of events to gather members and brokers together at key times of the year. In 2011, the Club held Member seminars in Istanbul, Hong Kong, Singapore, Taipei, Dubai and Seoul. The Insight Course that the Club has run for a number of years in London was also held in Athens for the first time in 2011. The Club also organised specific events for brokers in London, Athens and Hong Kong and held receptions in Athens and Seoul following Club Board meetings.

Broker relations

As more than half of UK Club members choose to enter through an intermediary, broker relations are extremely important to the Club.

The Club incorporates intermediaries into all aspects of the underwriting process as well as sharing information across other functions to ensure they are best placed to support their client, our Member. During the year a number of receptions and financial briefings were organised to enable brokers to explore and understand fully the developments and progress on finance, claims and other issues of concern to the Members they represent.

Risk management and Solvency 2

Risk management is not confined to statistical analysis, but takes on a real member facing focus in the loss prevention and ship inspection activities.

The Club, like the rest of the insurance industry in Europe, has been working to achieve Solvency 2 compliance in time for the entry into force of the Directive in January 2014. Previous reviews have described various aspects of Solvency 2, ranging from the enhanced capital requirements to the changes required to the Club's risk management and governance framework. For the Club, risk management is not confined to a statistical analysis, but takes on a real member facing focus in the loss prevention and ship inspection activities. In the past year the Club's approach to risk management has helped reshape the reinsurance programme and played a key part in the Club's corporate restructuring (see below) as well as preparing for the formal submission of its internal model to the FSA (and its successors) in the UK.

Capital modelling

The key focus of the Solvency 2 work during the year has been the building of the Club's internal model. The model focuses on the insurance and counterparty risks. In addition to enabling the Club to compute a Solvency Capital Requirement for Solvency 2, it has also become an important business tool in the formulating of policy.

In particular, the model has been used in the past year for assessing the capital requirement for the Individual Capital Assessment regime as well as contributing to the design of the Club's own reinsurance programme. Looking forward, it will play a key role in the formulation of the new investment policy.

One particular strength of the UK Club's model is that it has been built by the Manager's own actuarial team. The model has also been independently reviewed by the actuarial team of a major firm of accountants, which provides further assurance on its robustness. To help embed the internal model into the Club's core processes the Board has received a number of briefings on Solvency 2 in general and the workings and output of internal model in particular.

The S&P capital model is also used to assist in capital planning. As mentioned last year the Club targets capital in the AA range of the S&P model as a minimum level of capital. This acts as a useful proxy for what are still uncertain regulatory capital standards. Currently, the Club's capital adequacy for rating purposes continues to exceed this target on the model. S&P currently rate the Club at A– (stable outlook).

The UK Club aims to streamline governance, reduce compliance costs and more efficiently manage the Club's solvency capital requirements.

UK Club restructure

One of the practical outcomes of managing the regulatory capital position in the light of Solvency 2 is the work being done on restructuring the Club. The Club announced the reorganisation of its structure in March 2012. This will establish UK Europe as the sole provider of direct insurance to UK Club members.

By reducing the number of separately regulated insurers from two to one, the UK Club aims to streamline governance, reduce compliance costs and more efficiently manage the Club's solvency capital requirements. The reorganisation will not affect UK Club Members' terms of entry, cover or premium. They will continue to be Members of UK Bermuda but insured by UK Europe. The valued relationships between Members, the Club and its Managers will continue unchanged.

The new structure will take effect from 20th February 2013.

Loss prevention

The Club's market leading loss prevention initiatives form a key element of the risk management framework. In 2011, the Club's loss prevention department launched its BowTie risk assessment initiative. Building on previous work undertaken on the root causes of accidents in the shipping industry, BowTie takes this one stage further by looking at the hazards on board that can be the causes of accidents and devising controls to either prevent an accident occurring or mitigating their consequences. The Club took BowTie out on the road to members' offices and ran seminars for members in Greece, Cyprus, Singapore and Hong Kong. BowTie has proved to be extremely popular with members and their crews, who find it both easy to comprehend and useful in safety planning onboard.

In what was a very busy year for the loss prevention team, they also found time to produce a number of loss prevention checklists, as well as loss prevention supplements covering topics including tanker, dry bulk and container issues. The Club also released a new DVD, 'The Missing Link' covering the causes of mooring accidents and steps that can be taken to make the mooring process safer.

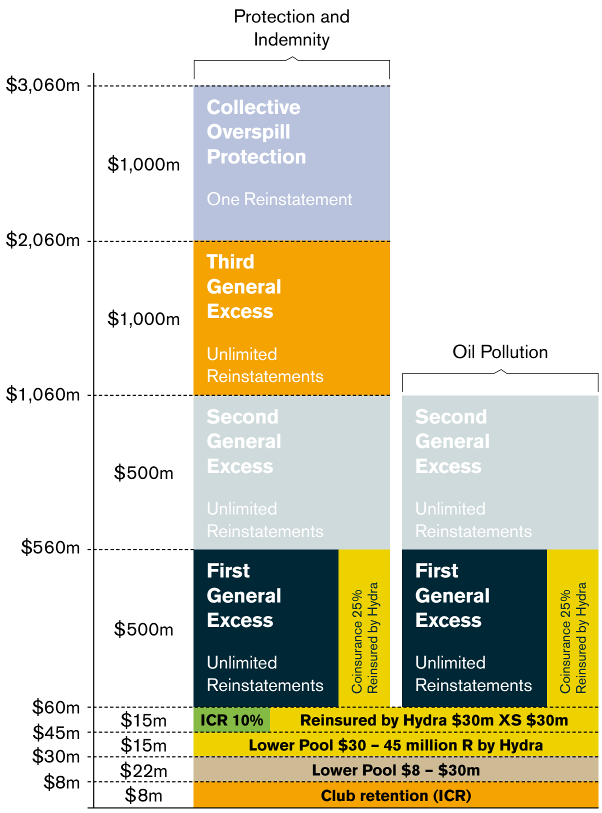
Reinsurance

The UK Club's record on the Pool continued to be very satisfactory with a loss record of 92 per cent amounting to credit balance of $69 million.

Building on the work done for the 2011 policy year the Club reviewed the structure of its retained reinsurance programme using the internal model to compare possible outcomes for claims at different probability levels and compared this to the Club's risk appetite. This has produced a programme which is 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. These policies complement the structure of the International Group Excess of Loss contract.

The overall structure of the International Group Excess of Loss Reinsurance contract is shown in fig. 5 below. The Club's individual per claim retention for 2012 remains the same as 2011 at $8 million and the retention for the Pool as a whole has been maintained at $60 million. The main change from 2011 relates to the sharing of claims in the Upper Pool layer between $45–60 million where the club bringing the claim retains 10 per cent of the cost, with the remaining 90 per cent being shared between all clubs on the basis of net weighted tonnage (tonnage adjusted to reflect reinsurance contributions). 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 $69 million.

Fig. 5 Structure of International Group Excess of Loss Reinsurance Contract for 2012 policy year



Claims

What distinguishes 2011 from other policy years is the current absence of large claims.

The claims performance for this financial year has been particularly encouraging with improvements in the development of older policy years, and early signs that 2011 policy year will be a particularly low claims year, see table 4. At the twelve month stage net notified claims on the 2011 policy year are $130 million compared to $163 million and $172 million in 2009 and 2010 respectively. To some extent this is not a surprise as the claims frequency, which is driven by underlying economic factors, such as world trade, remains at similar levels to the 2009 and 2010 policy years, see fig. 6.

What distinguishes 2011 from other policy years is the current absence of large claims. Although underlying economic factors remain benign for P&I claims, the impact of random events which tend to produce the larger claims can still significantly impact the cost of a policy year. These larger claims tend to arise from the casualty category of claims, such as collisions and pollution.

This is best seen in fig. 7, which shows those claims above $0.5 million, but below the Pool retention. This shows clearly the marked difference between 2011 and all other policy years in the graph.

Fig. 6 Total net notified claims for policy years 2003-2011 at 20th February 2012

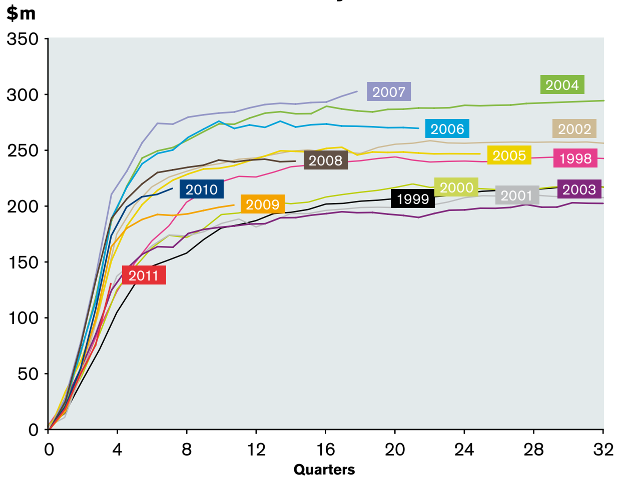
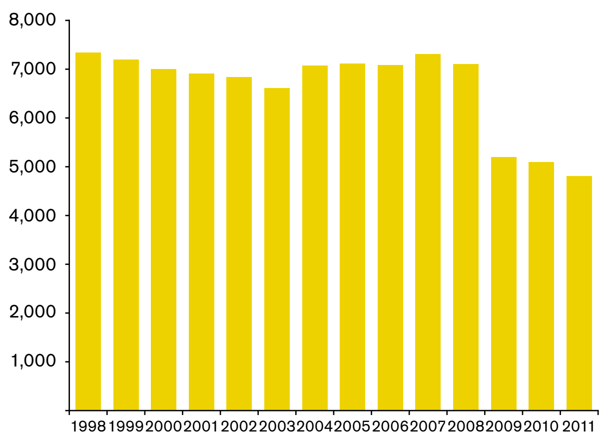


Fig. 7 Number of claims at 12 months by policy year



The 2011 policy year suggests that it may be one of the lowest claims years for the Club for some time.

In past reports the impact of Pool claims has been noted as they have had a significant effect on the economy of the Club. 2011 was marked by two high profile claims: the COSTA CONCORDIA and the RENA. At this stage there are no UK P&I Club Pool claims for the 2011 policy year. Fig. 9 below shows that the trend in Pool claims becomes much clearer after six quarters of development and it is possible that 2011 might deteriorate further. For the time being, and despite the two large claims already notified, 2011 is running below the level of 2006 and 2007. Even if there were to be significant deterioration, the Club is protected by its own Pool reinsurance cover.

While the early claims development on the UK Club's 2011 policy year suggests that it may be one of the lowest claims years for the Club for some time, there are signs that elsewhere in the P&I sector claims have been much higher, due mainly to the impact of the larger, more random claims. It is evident that pace of the recovery of the Western economies remains subdued, but that the Asian and developing economies are continuing to see much higher growth rates. In this environment it is possible that the turning point in the economic cycle and therefore its impact on claims levels will take some time to become clear. The risk remains that because of the global nature of shipping that claims frequency, and inflation levels pick up more quickly than expected. Maintaining underwriting discipline is therefore vital even when the latest claims information is favourable.

Fig. 8 Net notified claims > $0.5m (capped at Pool retention) at 20th February 2012 by policy year

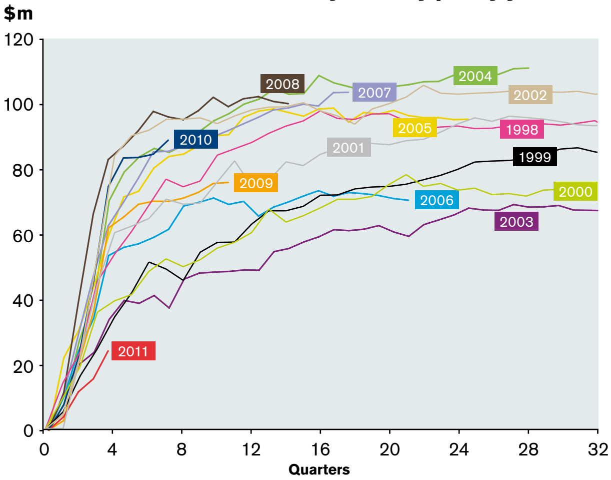
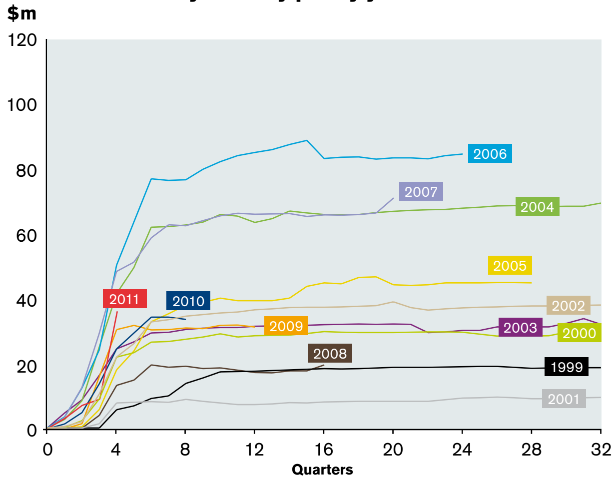


Fig. 9 Clubs share of net notified Pool claims at 20th February 2012 by policy year



Claims liability trends

Aside from the effect of shipping markets on claims trends, there are other underlying factors which are likely to have a long-term effect on the pattern of claims. One area which has been discussed previously is that of increasing liabilities of ship owners under international conventions. Recent examples of this include the introduction of a more onerous liability regime for pollution in Australia and at the end of that year the introduction of the Passenger Liability Regulations in the EU. In the international field, the Maritime Labour Convention is due to come into force once 30 states have ratified the convention (currently the number of ratifications stands at 25), and this will increase owners' liabilities towards their crew in some situations, some of which are outside the scope of P&I cover.

Liquefaction

During the course of the last few years, the Club, together with others in the International Group, have been engaged in assisting ship operators in relation to cargoes which have been shown to have a tendency to liquefy if loaded with excess moisture. This issue initially manifested itself in India with an ever increasing volume of exports of iron ore fines, mainly to China. Engagement with the Indian maritime authorities and their constructive response has resulted in a general improvement in the previously unsound practices adopted by local shippers. Although continued vigilance is required, the issues with these consignments have diminished in frequency.

However, problems have continued to occur at a high rate in both Indonesia and the Philippines in relation to nickel ore cargoes. These have escalated through the last two years as the global market in metals has led to viability in the shipment of ever lower grade ores, often with as little as 2 per cent metal content. In Indonesia in particular, the problems have centred upon local shippers who have failed in their obligation to comply with the International Maritime Solid Bulk Cargos (IMSBC) Code such that certificates in advance of loading are routinely, at best, unreliable or wholly inaccurate in their declarations of moisture content and the transportable moisture limits (TML). The Club Board has been informed of shipping industry discussions which have highlighted recent bulk carrier sinkings caused by liquefaction of nickel ore loaded in Indonesia. These included four Chinese flag vessels and the most recent loss of VINALINES QUEEN in December 2011. This last incident had been at the forefront of discussions within a sub-committee of the International Group which met in January 2012. It was concluded that, in the longer term, maintaining the status quo was not an acceptable option and that it was important for the International Group and the shipping industry as a whole to keep the pressure on both the Indonesian and the Philippine authorities in particular to enforce fully the requirements of the IMSBC Code and to act upon their obligations to uphold safe practice. Consideration is presently being given to a proposal that all Members engaged in this trade should be required to give advance notification to their respective clubs of an intention to load nickel ore and that data would be gathered to create a clearer picture of which areas might be at higher risk such that preloading inspections and cargo analyses should be undertaken as a matter of routine.

Efforts have been made to ensure that an appropriate and balanced approach is achieved between commercial interests and the overriding safety of the ship and crew. From experience it has become clear that problems escalate if unsafe cargoes are loaded before accurate analysis has been undertaken of the actual moisture content. Problems become most intractable when loaded cargoes are later found to be in excess of the TML, particularly as most ports which load this material do not have unloading equipment. It is easy to say, but it is essential, that such situations should be avoided at all costs.

The Club has undertaken its own investigations into the technical aspects underlying the issue of cargo liquefaction in general and it is hoped that this will lead to a creative reassessment of the manner in which these liquefactions can occur and prompt revised recommendations for carriage. Recently, the Club was part of a delegation which visited the Indonesian authorities in Jakarta. It is disappointing to note that while their responsibilities extend to the proper implementation of the IMSBC Code, effective oversight falls far short of a professional standard. Continuing efforts will be made to rectify this unacceptable position in the interests of the safety of the crews engaged in this trade.

Political issues

A recent trend has been the change in approach both by the United States and the EU in the way that they seek to impose trade sanctions against other states. Originally, sanctions regimes such as the US sanctions against Iran were based on a list of prohibited persons or organisations with which US entities were forbidden to do business. However, it is now becoming the case that sanctions are imposed that prohibit third parties from providing services such as banking or insurance to embargoed nations as a way of disrupting their trade. Providers of these services may find that they are the subject of potential criminal penalties if they unwittingly breach these sanctions. In the past 12 months, sanctions of this type have been imposed on Iran and Syria and the trend seems likely to continue.

Piracy remains a major issue for ship owners trading almost anywhere in the Indian Ocean and the Arabian Sea. It is encouraging to see that the number of successful attacks has diminished in recent months. This is almost certainly attributable to better awareness of Best Management Practices (BMP4), as well as the more widespread use of armed guards on board. The latter raises a number of issues for ship owners, from the selection of an appropriate private maritime security company to the terms of their contract, from issues of insurance cover to the transportation and embarking/disembarking firearms. While the UK Club is not directly involved in dealing with piracy incidents, the Club nevertheless receives a lot of requests from members for assistance on contractual issues. The Club, through the International Group, is also heavily involved in discussions with governments, the military and industry bodies to progress issues of concern to ship owners. The Club often becomes involved once a ship is released by pirates, as at this point crew medical issues arising from the hijacking, repatriation and compensation for effects stolen by pirates need to be addressed. Given that Somali piracy incidents are now frequently accompanied by severe mistreatment of the crew, psychological injuries to crew are sadly becoming more common.

We have also recently seen an increase in piracy in other parts of the world, most particularly off West Africa. The driver for these incidents appears to be theft of oil cargoes rather than a desire to collect ransoms and while these piracy incidents are brief in duration compared to Somali piracy incidents, they are often accompanied by considerable violence and sometimes lethal force. The Club is doing all it can to assist ship owners and to progress piracy issues with the appropriate parties.

Investments

The reverberations of the credit crisis of 2008 continued to be felt by global economies and financial markets during the year. Although the origins of that crisis were in the US it has been Europe that has felt the side effects most acutely of late. Indeed the US economy showed signs of recovery during the year and produced stronger GDP growth than other developed economies and a better stock market performance.

The eurozone had to face up to its differences rather than its similarities during the year, and its breakup looked imminent on several occasions. Fiscal deficits remained high leading to increased debt to GDP levels to, in some cases, unsustainable levels. At the same time governments began to cut spending and banks tried to shrink their balance sheets, due to lack of funding and new restrictive regulations. These factors reduced demand further exacerbating the recessionary conditions. The European Central Bank, the ECB, stepped in at the eleventh hour to provide emergency funding for the European banking system and in turn to European governments.

Growth also slowed in some of the larger developing economies of China, India and Brazil as the governments there tried to restrain demand and reduce inflationary pressures.

Equity markets had a volatile year reflecting the unfolding events in Europe. The first half of the year proved difficult as the consequence of sovereign defaults and the break up of the eurozone was contemplated. More decisive ECB action to reliquify the European banking system led to significant rallies in equity markets in the second half of the financial year, which nearly offset the falls in the first half. The MSCI World index returned –2.79 per cent in dollars during the year. With better economic and corporate performance in the US its equity markets outperformed with the S&P 500 increasing 3.53 per cent, and the NASDAQ up 7.36 per cent. European markets were poor with the Eurostoxx 50 falling 16.87 per cent in dollar terms. Emerging markets performed much in line with world markets in general, although China fell 15.14 per cent.

The low levels of economic growth, falling levels of inflation, and a desire by many to be invested only in the safest of asset classes meant government bonds continued their bull market. US treasuries in particular produced strong returns. The benchmark ten year bond for example produced a total return of 18.59 per cent in the financial year.

Currency markets were also volatile with the dollar stronger against the euro and sterling but slightly weaker against other major currencies.

Portfolio Positioning - per cent of assets

	February 2012	February 2011
Equities	10.31	17.32
Fixed Interest	68.31	54.39
Absolute Return of Funds	10.23	7.80
Cash	11.15	20.49
	100.00	**100.00**

Given the uncertainties surrounding Europe and its banking system a conservative investment stance was adopted within the Club's portfolio with the benchmark equity position reduced from 15 per cent to 10 per cent. Given returns available in the fixed interest market the cash position was also reduced significantly. It was also felt prudent to hold a lower level of assets in bank deposits rather than short term government fixed interest securities.

Performance

The investment portfolio rose 1.5 per cent during the financial year, adding $18.6 million to the Club's assets.

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

Amount in $000	Appendix	2012	2011
Open policy years			
2011	0	261	
2010	2	(7,567)	(17,984)
2009	2	55,360	48,354
2008	2	–	92,340
Surplus on Open years		48,054	122,710
Closed policy years	3	–	–
Contingency Account	3	291,662	204,058
Catastrophe reserve	3	44,540	46,549
Other comprehensive income		1,963	5,436
Statutory reserve		240	240
Total surplus		386,459	378,993
Outstanding claims		778,869	808,744
		1,165,328	1,187,737
Perpetual subordinated capital securities		99,318	98,862
		1,264,646	**1,286,599**

Appendix 2
Development of open policy years

Summary of Reserves

Amount in $000	2011	2010	2009
Calls and premiums	360,213	364,408	385,748
Less reinsurance premiums	67,858	65,440	61,963
	292,355	**298,968**	**323,785**
Incurred claims:			
Paid	43,961	108,049	154,515
Known outstanding estimates	96,090	122,080	71,167
Unreported estimates	112,593	46,862	28,811
	252,644	276,991	254,493
Operating expenses	38,489	37,273	38,268
	291,133	**314,264**	**292,761**
Net investment return	(961)	7,729	24,336
Surplus/(Deficit)	261	(7,567)	55,360
Future investment income	13,000	6,000	7,000
Anticipated surplus/(deficit)	**13,261**	**(1,567)**	**62,360**

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 $29 million (2011), $30 million (2010) and $32 million (2009).

(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 $43 million (2011), $24 million (2010) and $23 million (2009) 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

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	Closed policy years	Contingency Account	Catastrophe reserve
Balance at 20th February 2011	**290,801**	**204,058**	**46,549**
Investment return	61	3,313	500
Perpetual subordinated capital securities interest	–	(9,000)	–
Reinsurance premiums	–	–	(2,509)
Transfers on closure:			
Deficit on 2008 policy year	–	92,341	–
Balance of 2008 policy year	112,285	–	–
Premium adjustments	562	–	–
Reserve transfer	–	–	–
Claims paid net of reinsurance recoveries	(96,043)	(5,450)	–
Transferred to Contingency account on review of estimated and unreported claims	(6,400)	6,400	–
Balance at 20th February 2012	**301,266**	**291,662**	**44,540**
Outstanding claims	**301,266**	–	–
Net surplus (see Appendix 1)	–	291,662	44,540

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 2012.

Summary of Reserves

Amounts in $000	Funds available	Estimated claims and forecast of unreported claims	Discounted liability
Total Closed Policy Years	301,266	301,266	284,804
Open Policy Years			
2009	155,338	99,978	93,428
2010	161,375	168,942	157,873
2011	208,944	208,683	195,009
	525,657	**477,603**	**446,310**
Reserves			
Contingency Account	291,662	–	–
Catastrophe reserve	44,540	–	–
Other comprehensive income	1,963	–	–
Statutory reserve	240	–	–
Total funds	**1,165,328**	**778,869**	**731,114**

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

Report on the Financial Statements

We have audited the accompanying financial statements of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited, which comprise the consolidated statement of financial position as at 20th February 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in reserves and consolidated statement of cash flows 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 we required to state to them in an auditor's 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 and the Association's Members as a body for our 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 misstatement.

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 The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited as at 20th February 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens LLP, London
7th May 2012
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 may have occurred to the financial statements since they were initially presented on the website.

Consolidated statement of comprehensive income

for the year ended 20 February 2012

Amounts in $000	Notes	2012	2011
Insurance premium revenue	14	360,540	364,791
Insurance premium ceded to reinsurers	14	(70,685)	(70,218)
Net insurance premium revenue		289,855	294,573
Investment income	15	20,771	19,386
Net realised gains on financial assets	16	11,857	6,719
Net fair value (losses)/gains on financial assets	17	(14,029)	31,349
Net investment return		18,599	57,454
Net income		**308,454**	**352,027**
Change in provision for insurance claims	10	(10,430)	36,816
Reinsurers' share of change in provision for insurance claims	10	34,772	(37,031)
Insurance claims and loss adjustment expenses	10	(321,070)	(312,683)
Insurance claims and loss adjustment expenses recovered from reinsurers	10	53,441	73,289
Net insurance benefits and claims		**(243,287)**	**(239,609)**
Expenses for the acquisition of insurance contracts	18	(20,425)	(20,273)
Net operating expenses	18	(21,684)	(20,348)
Foreign exchange (losses)/gains		(2,852)	1,236
Expenses		**(288,248)**	**(278,994)**
Results from operating activities		**20,206**	**73,033**
Finance costs	12	(9,000)	(9,000)
Surplus before tax		**11,206**	**64,033**
Income tax expense	19	(267)	(1,416)
Surplus for the year attributable to members		**10,939**	**62,617**
Other comprehensive income			
– Amounts recycled into surplus		(3,046)	–
– Fair value (loss)/gain		(427)	5,436
Other comprehensive income for the year net of tax	**13**	**(3,473)**	**5,436**
Total comprehensive income for the year attributable to members		**7,466**	**68,053**

Other comprehensive income items are disclosed net of tax as there are no amounts of income tax that relate to these items.

The notes on pages 46 to 90 are an integral part of these consolidated financial statements.

The United Kingdom Mutual Steam Ship Association (Bermuda) Limited

Consolidated statement of financial position

as at 20th February 2012

Amounts in $000	Notes	2012	2011	2010
Assets				
Financial assets				
Equity securities:				
– At fair value through profit and loss	6	231,373	288,620	244,627
– At cost	6	17,277	17,703	16,839
Debt securities:				
– At fair value through profit and loss	6	790,166	624,807	513,603
Loans and receivables including insurance receivables	7	85,029	92,755	158,046
Derivative financial instruments	8	1,963	5,436	1,649
Reinsurance contract assets	10	331,041	296,269	333,300
Cash and cash equivalents	9	158,423	279,603	289,713
Accrued interest		6,099	5,077	4,366
Total assets		**1,621,371**	**1,610,270**	**1,562,143**
Reserves and liabilities				
Capital and reserves attributable to members				
Free reserves		384,256	373,317	310,700
Cash flow hedging reserve	13	1,963	5,436	–
Other reserves	13	240	240	240
Total		**386,459**	**378,993**	**310,940**
Financial liabilities – Perpetual subordinated capital securities	12	99,318	98,862	98,405
Total		**485,777**	**477,855**	**409,345**
Other liabilities				
Insurance liabilities	10	1,109,910	1,105,013	1,131,010
Derivative financial instruments	8	824	565	–
Provisions		615	937	931
Trade and other payables	11	24,122	25,223	20,387
Current income tax		123	677	470
Total		**1,135,594**	**1,132,415**	**1,152,798**
Total reserves and liabilities		**1,621,371**	**1,610,270**	**1,562,143**

The notes on pages 46 to 90 form an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Board of Directors on 7th May 2012 and were signed on its behalf.

Dino Caroussis
Director

Eric Andre
Director

Hugo Wynn-Williams
Manager

Consolidated statement of changes in reserves

Attributable to members

Amounts in $000	Notes	Free reserves	Cash flow hedging reserve	Other reserves	Total
Year ended 20th February 2012					
At the beginning of the year		373,317	5,436	240	**378,993**
Surplus for the year		10,939	–	–	**10,939**
Other comprehensive income					
Cash flow hedge- recycled to surplus		–	(3,046)	–	**(3,046)**
Cash flow hedge change in fair value		–	(427)	–	**(427)**
Total other comprehensive income for the year	13	–	(3,473)	–	**(3,473)**
Total comprehensive income for the year		10,939	(3,473)	–	**7,466**
At end of year		**384,256**	**1,963**	**240**	**386,459**
Year ended 20th February 2011					
At the beginning of the year		310,700	–	240	**310,940**
Surplus for the year		62,617	–	–	**62,617**
Other comprehensive income					
Cash flow hedge- change in fair value	13	–	5,436	–	**5,436**
Total other comprehensive income for the year		–	5,436	–	**5,436**
Total comprehensive income for the year		62,617	5,436	–	**68,053**
At end of year		**373,317**	**5,436**	**240**	**378,993**

The notes on pages 46 to 90 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 20th February 2012

Amounts in $000	Notes	2012	2011
Operating activities			
Calls and premiums received		367,944	424,528
Receipts from reinsurance recoveries		50,637	80,715
Interest and dividends received		19,749	18,675
		438,330	**523,918**
Claims paid		320,678	312,683
Acquisition costs		20,424	20,272
Operating expenses paid		19,839	20,963
Reinsurance premiums paid		65,458	70,660
Taxation paid		821	1,209
		427,220	**425,787**
Net cash provided by operating activities		**11,110**	**98,131**
Investing activities			
Purchase of investments		(677,266)	(675,536)
Sale of investments		558,118	572,812
Net cash used in investing activities		**(119,148)**	**(102,724)**
Financing activities			
Interest paid on perpetual subordinated securities		(9,000)	(9,000)
Net cash used in financing activities		**(9,000)**	**(9,000)**
Net (decrease) in cash and cash equivalents		(117,038)	(13,593)
Effect of exchange rate fluctuations on cash and cash equivalents		905	(1,565)
Cash and cash equivalents at the beginning of the year	9	274,556	289,714
Cash and cash equivalents at the end of the year	**9**	**158,423**	**274,556**
Breakdown of cash at end of year			
Cash and cash equivalents		**158,423**	**279,603**
Amounts included within creditors		–	**(5,047)**
Total		**158,423**	**274,556**

The notes on page 46 to 90 form and integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Note 1
General information

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 protection 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.

The Association is unlisted. The Association has no share capital and is controlled by the Members who are also the insured.

These consolidated financial statements have been authorised for issue by the Board of Directors on 7th May 2012.

Note 2
Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1
Basis of presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as defined by International Accounting Standards 1 (IAS 1). They have been prepared under the historical cost convention, as modified by the recording of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss. These are the Association's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 – First-time Adoption of IFRS has been applied.

For all periods up to and including the year ended 20th February 2011, the Association prepared its financial statements in accordance with accounting principles generally accepted in Bermuda and Canada. These financial statements for the year ended 20th February 2012 are the first the Association has prepared in accordance with IFRS. Information on the impact of adoption of IFRS is disclosed in Note 24.

2.1 Basis of presentation (continued...)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

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.

Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Association.

IFRS 7: Financial instruments - enhanced derecognition requirements

The amendment requires additional disclosures about financial assets that have been transferred, but not derecognised, to enable the user of the Association's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011.
The amendment affects disclosure only and has no impact on the Association's financial position or performance.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the International Accounting Standards Board (IASB)'s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Association's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Association will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2.1 Basis of presentation (continued...)

IFRS 10: Consolidated Financial Statements

On 12 May 2011 the IASB issued IFRS 10 Consolidated Financial Statements. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. A high level assessment of IFRS 10 was performed by the Association, and it is considered to have little to no impact on the Association.

IFRS 12: Disclosure of interests in Other Entities

On 12 May 2011 the IASB issued IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. IFRS 12 will impose certain additional disclosure requirements on the Association.

IFRS 13: Fair value measurement

On 13 May 2011 the IASB issued IFRS 13 Fair Value Measurement. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The IFRS is not expected to have a significant impact on the financial results of the Association and is expected to have a minimal impact on disclosure.

IAS 1: Presentation of financial statements

The IASB recently issued amendments to IAS 1 Presentation of Financial Statements on the presentation of other comprehensive income (OCI). The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit and loss at a future point in time would be presented separately from items which will never be reclassified. The amendments are effective for annual periods beginning on or after 1 July 2012. As all of the Association’s items of comprehensive income will be reclassified to profit and loss in the future, this amendment is expected to have no impact on the results of the Association.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Association has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Association controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Association. They are de-consolidated from the date on which control ceases.

The Association uses the acquisition method of accounting to account for the purchase of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling interest. The excess of the cost of acquisition over the fair value of the Association's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income. Acquisition related costs are expensed in the year of cost.

Intra-group transactions, balances and gains and losses on intra-group transactions are eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Association.

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 special purpose entity. 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 consolidated financial statements; with all inter company transactions eliminated on consolidation.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors. The Board of Directors, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the body that makes strategic decisions.

The Association provides protection and indemnity risk cover to its members, and as such has identified this to be the only reportable segment of the Association. As a result no further segmental reporting is presented.

2.4 Annual accounting

The consolidated statement of comprehensive income 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 consolidated statement of comprehensive income and are allocated to a policy year or to a reserve.

2.5 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 gains on financial assets and fair value gains on financial assets through profit and loss, 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.

2.6 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.

2.7 Contingency account

On closure of a policy year the anticipated surplus or deficit remaining on the year is transferred to or from the Contingency 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 Contingency account. The Contingency 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.

2.8 Catastrophe reserve

The catastrophe 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.

2.9 Foreign currency translation

(a) Functional currency presentation

Items included in the financial statements of each of the Association's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). These consolidated financial statements are presented in thousands of US dollars which is the Association's presentation and functional currency.

(b) Transactions and balances

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 comprehensive income.

Foreign currency assets and liabilities are translated into US dollars at the rates of exchange ruling at the end of the reporting period. The resulting difference is included in the consolidated statement of comprehensive income.

Forward currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been re-valued at year-end rates of exchange. The profit or loss on exchange on these contracts is included within exchange gains and losses.

2.10 Financial assets

The Association classifies its financial assets as designated at fair value through profit and loss and loans and receivables. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

2.10.1 Classification

(a) Financial assets at fair value through profit and loss
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss at inception.

A financial asset is classified into the 'financial assets at fair value through profit and loss' category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Derivatives are also classified as in this category unless they are designated as hedges.

The financial investments of the Association that are classified as designated at fair value through profit and loss are shown in the consolidated statement of financial position.. The fair value gains and losses are taken to surplus or deficit within the consolidated statement of comprehensive income which reflects the management of the portfolio on a fair value basis.

(b) Financial assets at cost
Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

(c) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

2.10.2 Recognition and measurement

Regular-way purchases and sales of financial assets are recognised on trade-date – the date on which the Association commits to purchase or sell the asset.

Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income.

2.10.2
Recognition and measurement (continued...)

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Association has also transferred substantially all risks and rewards of ownership.

The interest receivable from the investments together with dividend receipts are included within investment income in the consolidated statement of comprehensive income. The fair value gains and losses on the movement in the market value of the investments compared to the cost are included in net fair value gains and losses on investments within the consolidated statement of comprehensive income. The realised gains and losses on sale of investments are included in net realised gains on financial assets through profit and loss in the consolidated statement of comprehensive income.

2.10.3
Determination of fair value

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 less any impairments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The fair value of foreign exchange forward contracts is based on current forward exchange rates.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

2.11
Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.11 Derivative financial instruments

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Association designates derivatives as either: hedges of highly probable forecast transactions (cash flow hedges); or non-hedge derivatives.

The Association documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Association also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 8. Movements on the hedging reserve are shown in Note 13.

(a) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated statement of comprehensive income within 'net fair value gains on financial assets at fair value through profit and loss'.

Amounts accumulated in reserves are recycled to income in the periods in which the hedged item affects profit or loss (for example, when the hedged forecast transaction takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of comprehensive income. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of comprehensive income.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in the consolidated statement of comprehensive income.

2.12 Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs. Financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the financial liability applying the effective interest method.

2.13 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.14 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.

2.15 Insurance contracts - classification

The Association issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

Provision for outstanding claims

Provision for the liabilities of insurance contracts is made for outstanding claims and settlement expenses incurred at the consolidated statement of financial position date including an estimate for the cost of claims incurred but not reported (IBNR) at that date. Included in the provision is an estimate for internal and external costs of handling the outstanding claims.

The risks associated with insurance contracts are complex and subject to a number of variables. The Association uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost and ultimate claims numbers. The key methods used by the Association in estimating liabilities are:

- Chain ladder
- Bornhuetter-Ferguson

2.15 Insurance contracts - classification (continued...)

Significant delays are experienced in the notification and settlement of certain types of insurance claims, the ultimate cost of which may vary from the original assessment. Adjustments to the amounts of claims provisions established in previous years are reflected in the consolidated financial statements for the period in which the adjustments are made and disclosed separately, if material.

Insurance receivables and payables

Receivables and payables arising under insurance contracts are recognised when due and measured at cost less provision for impairment, which approximate fair value.

2.15.1 Reinsurance

The Association enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards reinsurance business being reinsured.

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when due.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

2.16 Current and deferred income tax

The charge for UK taxation is shown in the consolidated statement of comprehensive income. 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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.17 Provisions

Provisions are recognised when the Association has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

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 Association, and the exposure to loss in excess of the amount accrued is minimal.

2.18 Revenue recognition

Revenue comprises the fair value for services, net of value-added tax, after eliminating revenue within the Association. Revenue is recognised as follows:

Insurance premium revenue

Calls and premiums include gross calls and supplementary premiums, less return premiums, release changes and provisions for cancellations. 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.

Fee and commission income

Fee and commission income consist mainly of reinsurance and profit commissions and policyholder administration fees. There are no deferred commissions. All other fee income is recognised as the services are provided.

(a) Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit and loss, are recognised within ‘Investment income’ (Note 15) and ‘Finance costs’ (Note 12) in the consolidated statement of comprehensive income using the effective interest rate method. When a receivable is impaired, the Association reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(b) Dividend income

Dividend income is recognised when the right to receive payment is established – this is the ex dividend date for equity securities. Dividends are recognised within investment income (note 15).

2.18 Revenue recognition (continued...)

(c) Fair value gains and losses

Fair value gains and losses on investments recorded in the consolidated statement of comprehensive income include gains and losses on financial assets that relates to the movement in the market value of financial assets compared to the cost. Realised gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

Note 3 Critical Accounting estimates and judgements

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments.

Note 4 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 type of scale of 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.

Note 4
Management of risk

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 II.

The Board and Managers have 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.

4.1 Insurance risk (continued...)

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 and Risk 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 an 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 2011/12 year) the first $8 million (2010/11: $8 million) of each claim is retained by the Association with the next $52 million (2010/11: $52 million) shared between Pool members at a rate calculated each year.

Above $60 million, the excess of loss reinsurance provides cover up to a limit of $3.06 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 whilst 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, pre-employment medical examinations for crew and production of various guides for safe carriage of goods and the avoidance of incidents.

4.1
Insurance risk (continued...)

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 as directed and 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.

The Association considers that the liability for insurance claims recognised in the consolidated statement of financial position is adequate. However, actual experience will differ from the expected outcome.

Some results of sensitivity testing are set out below, showing the impact on surplus before tax and equity, gross and net of reinsurance. For each sensitivity, the impact of a change in a single factor is shown, with other assumptions unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

Amounts in $000	2012	2011
Increase in loss ratios by 5 percentage points		
Gross	(18,027)	(18,240)
Net	(14,493)	(14,729)
Decrease in loss ratios by 5 percentage points		
Gross	18,027	18,240
Net	14,493	14,729

The Association's method for sensitivity testing has not changed significantly from the prior year.

The Association only provides protection and indemnity risk cover to its members and as a result, no concentration analysis of risks by cover can be performed. As this cover applies to ships at sea it is not feasible to measure geographical concentration of insurance liabilities.

Financial risk

The Association manages the financial risks relating to the operations of the Association through internal risk reports which analyse exposures by degree and magnitude of risk. These risks include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Association may seek to minimise the effect of these risks by using derivative financial instruments to hedge risk exposures. The Association does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

4.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

The Board of the Association'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.

Foreign currency risk management

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.

4.2
Market risk (continued...)

As at 20th February 2012

Amounts in $000	US Dollar	Sterling	Euro	Other	Total
Debt securities	481,557	82,659	158,252	67,698	790,166
Equities	103,017	26,313	4,506	–	133,836
Absolute return funds	114,814	–	–	–	114,814
UCITS	40,335	12,157	14,172	–	66,664
Derivative financial instruments	–	1,963	–	–	1,963
Cash balances	85,626	2,884	1,827	1,422	91,759
Amounts due from members	70,832	20	1,041	–	71,893
Reinsurers' share of outstanding claims	331,041	–	–	–	331,041
Accrued interest	2,918	1,186	1,678	317	6,099
Sundry debtors	12,021	634	355	126	13,136
Gross outstanding claims	(715,457)	(101,219	(143,421)	(149,813)	(1,109,910)
Other liabilities	(21,213)	(2,317)	(2,011)	(143)	(25,684)

As at 20th 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
Derivative financial instruments	–	5,436	–	–	5,436
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	(706,481)	(51,532)	(163,137)	(183,863)	(1,105,013)
Other liabilities	(19,871)	(5,504)	(1,973)	(54)	(27,402)
	569,802	**62,179**	**(321)**	**(153,805)**	**477,855**

In addition a liability of $99.3 million (2011: $98.8 million) relating to perpetual subordinated capital securities is denominated in US dollars.

4.2
Market risk (continued...)

Foreign currency sensitivity analysis

A 5 per cent strengthening of the following currencies against the US dollar would be estimated to have increased/(decreased) 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 20th February 2012	
Sterling	2,723
Euro	3,959
As at 20th February 2011	
Sterling	3,528
Euro	2,171

A 5 per cent weakening of these currencies against the US dollar would have an equal and opposite effect.

Interest rate risk management

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

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.

4.2 Market risk (continued...)

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 consolidated statement of financial position dates and all assumptions had remained unchanged. The sensitivity analysis is limited to the effect of changes in interest rates on debt securities.

Amounts in $000	Effect on investment valuation
As at 20th February 2012	25,479
As at 20th February 2011	15,788

A decrease of 100 basis points would have an equal and opposite effect.

Other price risk management

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 23 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 $115 million.

Where available, the Association uses closing bid market values to determine the fair value of an investment holding. Unquoted investments are valued at cost. The carrying value of non quoted equity holdings at the year end amounted to $17.3 million.

Equity price 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 $11.7 million. This analysis assumes that all other variables remains constant.

4.3 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Association. The key areas of exposure to credit risk for the Association are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries

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

4.3 Credit risk (continued...)

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 being in fixed interest securities and UCITS. Within these materially all investments are at least A rated with many relating to government or supranational bodies.

4.3
Credit risk (continued...)

The following tables provide 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:

Credit risk as at 20th February 2012

Amounts in $000	AAA	AA	A	Not readily available/not rated	Total
Debt securities	200,717	423,686	85,686	80,077	790,166
UCITS	66,664	–	–	–	66,664
Derivative financial instruments	–	–	–	1,963	1,963
Cash balances	12,968	76,952	1,533	306	91,759
Amounts due from members	–	–	–	71,893	71,893
Amounts due from group pooling arrangement	–	–	46,513	30,319	76,832
Amounts due from reinsurers	–	123,894	124,831	5,484	254,209
Accrued interest	2,564	1,991	898	646	6,099
Sundry debtors	–	–	–	13,136	13,136
Total of assets subject to credit risk	**282,913**	**626,523**	**259,461**	**203,824**	**1,372,721**
Other Assets					
Equities	–	–	–	133,836	133,836
Absolute return funds	–	–	–	114,814	114,814
Total assets	**282,913**	**626,523**	**259,461**	**452,474**	**1,621,371**

Credit risk at 20th 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
Derivative financial instruments	–	–	–	5,436	5,436
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**	**155,135**	**1,303,947**
Other Assets					
Equities	–	–	–	216,701	216,701
Absolute return funds	–	–	–	89,622	89,622
Total assets	**761,040**	**178,014**	**209,758**	**461,458**	**1,610,270**

4.3 Credit risk (continued...)

The following tables provide the profile of the dates at which amounts fell due for settlement:

Credit risk at 20th February 2012

Amounts in $000	Neither past due or impaired	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	790,166	–	–	–	–	790,166
Equities	133,836	–	–	–	–	133,836
Absolute return funds	114,814	–	–	–	–	114,814
UCITS	66,664	–	–	–	–	66,664
Derivative financial instruments	1,963	–	–	–	–	1,963
Cash balances	91,759	–	–	–	–	91,759
Amounts due from members	62,790	6,566	1,747	551	239	71,893
Reinsurers share of outstanding claims	331,041	–	–	–	–	331,041
Accrued interest	6,099	–	–	–	–	6,099
Sundry debtors	10,823	1,671	292	350	–	13,136
Total assets	**1,609,955**	**8,237**	**2,039**	**901**	**239**	**1,621,371**

Credit risk at 20th February 2012

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
Derivative financial instruments	5,436	–	–	–	–	5,436
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	**1,602,638**	**5,929**	**714**	**705**	**284**	**1,610,270**

4.4 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 Association'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 20th February 2012

Amounts in $000	Short term assets	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Debt securities	790,166	–	–	–	–	790,166
Equities	133,836	–	–	–	–	133,836
Absolute return funds	–	114,814	–	–	–	114,814
UCITS	66,664	–	–	–	–	66,664
Derivative financial instruments	–	1,963	–	–	–	1,963
Cash balances	91,759	–	–	–	–	91,759
Amounts due from members	13,186	58,707	–	–	–	71,893
Reinsurers share of outstanding claims	–	108,986	70,658	99,619	51,778	331,041
Accrued interest	–	6,099	–	–	–	6,099
Sundry debtors	413	12,723	–	–	–	13,136
Total assets	**1,096,024**	**303,292**	**70,658**	**99,619**	**51,778**	**1,621,371**

As at 20th 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
Derivative financial instruments	–	5,436	–	–	–	5,436
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**	**287,289**	**67,066**	**93,122**	**33,567**	**1,610,270**

4.4
Liquidity risk (continued...)

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

As at 20th February 2012

Amounts in $000	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Gross outstanding claims	(365,405)	(236,902)	(334,003)	(173,600)	(1,109,910)
Derivative contracts	(824)	-	-	-	(824)
Other liabilities	(24,860)	-	-	-	(24,860)
Total other liabilities	**(391,089)**	**(236,902)**	**(334,003)**	**(173,600)**	**(1,135,594)**

As at 20th February 2011

Amounts in $000	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Gross outstanding claims	(382,352)	(250,141)	(347,324)	(125,196)	(1,105,013)
Derivative contracts	(565)	-	-	-	(565)
Other liabilities	(26,837)	-	-	-	(26,837)
Total other liabilities	**(409,754)**	**(250,141)**	**(347,324)**	**(125,196)**	**(1,132,415)**

For contractual amounts payable on perpetual subordinated capital securities refer to Note 12.

4.5
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.

Limitation of the sensitivity analyses

These sensitivity analyses show 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.

There have been no changes to methods and assumptions used in the calculation of sensitivity analyses from the previous year.

4.6 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 $384 million (2011:$374 million) and Perpetual Subordinated Capital Securities of $99 million (2011:$99 million).

4.7 Fair value hierarchy

IFRS 7, 'Financial instruments – Disclosures' (amendment), requires enhanced disclosures about fair value measurement and liquidity risk. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

4.7 Fair value hierarchy (continued...)

At 20th February 2012, investments classified as Level 1 comprise approximately 62 per cent of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include shares in other variable income securities, government and agency securities, and certain corporate debt securities.

At 20th February 2012, investments classified as Level 2 comprise approximately 38 per cent of financial assets measured at fair value on a recurring basis. This primarily includes investments in unit trusts.

As disclosed in Note 8, the net fair value of derivative positions is approximately $1.1 million at 20th February 2012. All of these derivative contracts are classified in Level 2. The fair values of derivative assets and liabilities are determined using year-end rates of exchange and the potential profit or loss on the derivative.

For the accounting policies regarding the determination of the fair values of financial assets and financial liabilities, see Note 2.

The following table presents the Association's assets and liabilities measured at fair value:

As at 20th February 2012

Assets **Amounts in $000**	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit and loss			
– Equity securities	116,559	114,814	231,373
– Debt securities	790,166	–	790,166
Derivative financial instruments	–	1,139	1,139
Total	**906,725**	**115,953**	**1,022,678**

As at 20th February 2011

Assets **Amounts in $000**	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through profit and loss			
– Equity securities	198,998	325,035	524,033
– Debt securities	–	624,807	624,807
Derivative financial instruments	–	4,872	4,872
Total	**198,998**	**954,714**	**1,153,712**

Note 5
Segment information

The Association only provides protection and indemnity risk cover to its members and as a result, no concentration analysis of risks by cover can be performed. As this cover applies to ships at sea it is not feasible to measure geographical concentration of insurance liabilities. Consequently, the Association has identified protection and indemnity risk to be the only reportable segment.

The surplus amount reported in the consolidated statement of comprehensive income is similar to the amount reported to the Board of Directors for allocating resources and assessing performance of the operating segment. Consequently, for the results of the operating segment protection and indemnity risks, refer to the consolidated statement of comprehensive income.

Amounts in $000	2012	2011
USA	62,245	60,678
Greece	51,559	51,887
Japan	49,899	47,374
Germany	42,599	35,378
China	15,375	11,781
Other	138,863	157,693
Total	**360,540**	**364,791**

Revenues are allocated based on the country in which the member is located.

Management considers its external customers to be the individual policyholders; as such the Association is not reliant on any individual customer.

There are no non-current assets, other than financial instruments and risks arising under insurance contracts.

Note 6
Financial assets

The Association's financial assets are summarised by measurement category in the table below.

Amounts in $000	2012	2011	2010
Financial assets at fair value through profit and loss	1,021,539	913,427	758,230
Financial assets at cost	17,277	17,703	16,839
Loans and receivables (including insurance receivables - Note 7)	85,029	92,755	158,046
Total financial assets	**1,123,845**	**1,023,885**	**933,115**

Note 6
Financial assets (continued...)

The assets comprised in each of the categories above are detailed in the tables below:

Financial assets at fair value through profit and loss

Amounts in $000	2012	2011	2010
Equity securities			
- Listed (Equities)	231,373	288,620	244,627
	231,373	**288,620**	**244,627**
Debt securities			
- Listed (Debt securities)	790,166	624,807	513,603
	790,166	**624,807**	**513,603**
Total financial assets at fair value through profit and loss	**1,021,539**	**913,427**	**758,230**

Financial assets at cost			
Equity securities			
- Unlisted	17,277	17,703	16,839
Total financial assets at cost through profit and loss	**17,277**	**17,703**	**16,839**

Equity and debt securities classified at fair value through income are designated in this category upon initial recognition.

The market values of the listed investments, which are designated at fair value through profit and loss, are determined by reference to published price quotations in major recognised international stock exchanges.

Of the fixed income securities $553.6 million relate to government securities.

Note 6
Financial assets (continued...)

The movement in the Association's financial assets (excluding loans and receivables – see Note 7) are summarised in the table below by measurement category:

Amounts in $000	Fair value through profit and loss	Cost	Total
At the beginning of 2011	**758,230**	**16,839**	**775,069**
Exchange differences on monetary assets	14,970	864	15,834
Additions	674,971	–	674,971
Disposals	(572,812)	–	(572,812)
Fair value net gains			
– Designated at fair value through income on initial recognition	31,349	–	31,349
Profit (loss) on sale of investments			
– Designated at fair value through income on initial recognition	6,719	–	6,719
At the end of 2011	**913,427**	**17,703**	**931,130**
Exchange differences on monetary assets	(8,864)	(426)	(9,290)
Additions	677,266	–	677,266
Disposals	(558,118)	–	(558,118)
Fair value net gains			
– Designated at fair value through income on initial recognition			
– Classified as held for trading	(14,029)	–	(14,029)
Profit (loss) on sale of investments			
– Designated at fair value through income on initial recognition	11,857	–	11,857
At the end of 2012	**1,021,539**	**17,277**	**1,038,816**

Note 7
Loans and receivables

Amounts in $000	2012	2011	2010
Insurance receivables:			
– Due from contract holders	74,516	79,406	142,185
– Due from agents, brokers and intermediaries	–	201	187
– Less provision for doubtful debts	(2,624)	(110)	(3,250)
– Due from reinsurers	11,528	8,723	16,149
– Prepaid reinsurance	–	2,728	1,620
	83,420	**90,948**	**156,891**
Other loans and receivables			
– Prepayments	287	146	183
– Sundry receivables	1,322	1,283	730
– Loans to related parties	–	378	242
	1,609	1,807	1,155
Total loans and receivables including insurance receivables	**85,029**	**92,755**	**158,046**
Current portion	85,029	92,755	158,046
Non-current portion	–	–	–
	85,029	**92,755**	**158,046**

Note 7
Loans and receivables (continued...)

There is no concentration of credit risk with respect to loans and receivables, as the Association has a large number of internationally dispersed debtors.

Note 8
Derivative financial instruments

The Association uses cash flow hedges and non hedge derivatives in certain overseas operations.

(a) Cash flow hedges

The Association uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future operating expenses being payable in sterling.

The table below analyses the derivative positions included as cash flow hedges:

Forward currency contracts	**2012**		**2011**		**2010**	
Amounts in $000	**Contract/ notional amount**	**Fair value asset**	**Contract/ notional amount**	**Fair value asset**	**Contract/ notional amount**	**Fair value asset**
Cash flow hedge	61,463	1,963	67,164	5,436	-	-
Total	61,463	1,963	67,164	5,436	-	-

Gains and losses in reserves on forward foreign exchange contracts as at 20th February 2012 will be released to the consolidated statement of comprehensive income at various times during the next year from the end of the reporting period.

There was no ineffective portion attributable to cash flow hedges.

During the year $3.0 million was recycled into surplus with $1.8 million included within the gross claims paid and $1.2 million within net operating expenses.

(b) Non hedge derivatives

Forward currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been re-valued at year-end rates of exchange. The profit or loss on exchange on these contracts is included within exchange gains and losses. These are economic hedges, but do not meet the hedge accounting criteria.

Note 8
Derivative financial instruments (continued...)

Forward currency contracts	2012		2011		2010	
Amounts in $000	**Contract/ notional amount**	**Fair value asset**	**Contract/ notional amount**	**Fair value asset**	**Contract/ notional amount**	**Fair value asset**
Forward currency contracts	72,395	(824)	75,295	(565)	82,070	1,649
Total	72,395	(824)	75,295	(565)	82,070	1,649

Note 9
Cash and cash equivalents

Amounts in $000	2012	2011	2010
Cash at bank and in hand	27,549	31,357	14,677
Short-term bank deposits	130,874	248,246	275,036
Total	**158,423**	**279,603**	**289,713**

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

Amounts in $000	2012	2011	2010
Cash and cash equivalents	158,423	279,603	289,713
Amount included in trade and other payables	–	(5,047)	–
Total	**158,423**	**274,556**	**289,713**

Note 10
Insurance liabilities and reinsurance assets

Amounts in $000	2012	2011	2010
Gross outstanding claims			
– Members' claims	982,705	1,003,585	1,032,825
– Other clubs' pool claims	127,205	101,428	98,185
	1,109,910	**1,105,013**	**1,131,010**
Reinsurer's share of gross outstanding claims			
– Group excess of loss and market reinsurance	144,209	109,777	111,762
– Pool recoveries	76,832	76,492	111,538
– Other reinsurers	110,000	110,000	110,000
	331,041	296,269	333,300
Total insurance liabilities, net	**778,869**	**808,744**	**797,710**
Current	256,420	279,837	265,301
Non-current	522,449	528,907	532,409

Note 10
Insurance liabilities and reinsurance assets (continued...)

The total gross outstanding claims of $1,110 million includes a forecast of unreported claims of $313 million on open and closed policy years and an estimate of $29 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 a discounted value of $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.

10.1
Development claim tables

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Association's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position.

Insurance claims - gross
Estimate of ultimate claims cost attributable to the policy year

Amounts in $000 **Reporting year**	**2007/2008**	**2008/2009**	**2009/2010**	**2010/2011**	**2011/2012**
- At the end of reporting year	337,008	329,208	355,573	311,727	241,341
- One year later	365,443	297,658	327,240	358,772	-
- Two years later	370,243	286,252	309,713	-	-
- Three years later	365,084	275,825	-	-	-
- Four years later	365,421	-	-	-	-
Current estimate of cumulative claims	365,421	275,825	309,713	358,772	241,341
Cumulative payments to date	278,447	196,039	165,677	121,075	35,462
Liability recognised in the consolidated statement of financial position	86,974	79,786	144,036	237,697	205,879
Total liability relating to last five policy years					**754,372**
Other claims liabilities					355,538
Total reserve included in the consolidated statement of financial position					**1,109,910**

10.1
Development claim tables (continued...)

Insurance claims - net
Estimate of ultimate claims cost attributable to the policy year

Amounts in $000 Reporting year	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
- At the end of reporting year	315,000	312,461	275,533	273,754	236,292
- One year later	329,721	288,704	240,488	257,209	-
- Two years later	312,721	271,734	227,620	-	-
- Three years later	309,729	262,857	-	-	-
- Four years later	317,832	-	-	-	-
Current estimate of cumulative claims	317,832	262,857	227,620	257,209	236,292
Cumulative payments to date	268,483	185,578	131,401	94,623	35,462
Liability recognised in the consolidated statement of financial position	49,349	77,279	96,219	162,586	200,830

Total liability relating to last five policy years	**586,263**
Other claims liabilities	192,606
Total reserve included in the consolidated statement of financial position	**778,869**

10.2
Movement in insurance liabilities and reinsurance assets

Claims and loss adjustment expenses

	2012			2011		
Amounts in $000	**Gross**	**RI**	**Net**	**Gross**	**RI**	**Net**
Outstanding claims bought forward	**1,105,013**	**(296,269)**	**808,744**	**1,131,010**	**(333,330)**	**797,710**
Cash paid for claims settled in the year	(321,070)	53,441	(267,629)	(312,683)	73,289	(239,394)
Claims incurred in the current year	331,500	(88,213)	243,287	275,867	(36,258)	239,609
Exchange differences and other movements	(5,533)	-	(5,533)	10,819	-	10,819
Outstanding claims carried forward	**1,109,910**	**(331,041)**	**778,869**	**1,105,013**	**(296,269)**	**808,744**

Note 11
Trade and other payables

Amounts in $000	2012	2011	2010
Reinsurance premium payable	12,571	10,072	9,406
Claims payable	2,443	2,051	1,953
Trade payables and accrued expenses	9,108	13,100	9,028
Total	**24,122**	**25,223**	**20,387**

The fair value of these balances approximates their carrying value.

Note 12
Perpetual subordinated capital securities

Amounts in $000	2012	2011	2010
Financial liabilities at amortised cost:			
Perpetual subordinated capital securities	99,318	98,862	98,405

The securities, which have a principle amount of $100 million, 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 August 2013. Following this, the interest rate will be 481.5 basis points above 3 month LIBOR rate. The securities are perpetual but can be redeemed at the option of the Association after a five year non call period.

The securities are classified as financial liabilities at amortised cost under IAS 32, however for the purposes of FSA requirements the securities qualify as tier one capital.

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 per cent of the Associations Enhanced Capital Requirement) is not met. No interest will accrue on any Deferred Interest Payment (DIP). Any DIP may be satisfied at any time at the Association's election, provided that the Association must satisfy such DIP 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 DIP.

Note 12
Perpetual subordinated capital securities (continued...)

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 DIP 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.

A coupon interest of $9 million was paid during 2011/12.

Note 13
Other reserves

Amounts in $000	2012	2011	2010
Cash flow hedging reserve	1,963	5,436	-
Other reserves	240	240	240
	2,203	**5,676**	**240**

Movements in the reserve for cash flow hedges were as follows:

At the beginning of 2011/2012	**5,436**
Fair value gains for the year	(3,473)
At the end of 2011/2012	**1,963**

Note 14
Net insurance premium revenue

Amounts in $000	2012	2011
Mutual		
Mutual premium	293,705	298,141
Supplementary premiums	–	140
Return premium	(2,416)	(975)
Release charges	1,220	5,354
	292,509	**302,660**
Fixed premium		
Chartered vessels	51,272	45,285
Owned vessels	13,092	12,301
US Oil pollution	3,667	4,545
	68,031	**62,131**
Premium revenue arising from insurance contracts issued	**360,540**	**364,791**
Reinsurance		
Market underwriters	(70,685)	(70,218)
Other reinsurance arrangements	–	–
Premium ceded to reinsurers	**(70,685)**	**(70,218)**
Net insurance premium revenue	**289,855**	**294,573**

Note 15
Investment income

Amounts in $000	2012	2011
Dividend income	4,267	2,537
Interest on fixed income securities	17,443	16,840
Bank deposit interest	28	52
Other investment charges	(967)	(43)
Total investment income	**20,771**	**19,386**

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 an exchange gain or loss. The associated fluctuations within claims outstanding are included within the change in provision for net outstanding claims (see Note 10).

Note 16
Net realised gains on financial assets

Amounts in $000	2012	2011
Realised gains on financial assets at fair value through profit and loss		
– Equity securities	11,047	7,426
Realised losses on financial assets at fair value through profit and loss		
– Debt securities	810	(707)
Total net realised gains on financial assets	**11,857**	**6,719**

Note 17
Net fair value gains on assets through profit and loss

Amounts in $000	2012	2011
Net fair value gains on financial assets through profit and loss		
– Debt securities	14,278	2,560
– Equity securities	(28,307)	28,789
Total	**(14,029)**	**31,349**

Net fair value gains on non-derivative financial assets at fair value through profit and loss relate entirely to assets designated to be in this category upon initial recognition.

Note 18
Other expenses

Expenses for the acquisition of insurance contracts

Amounts in $000	2012	2011
Costs incurred in the acquisition of insurance contracts expensed during the year	**(20,245)**	**(20,273)**

Amounts in $000	2012	2011
Net operating expenses		
Residual management fee	(12,179)	(11,820)
Directors' Meetings	(2,519)	(2,407)
Managers / Agent travel	(798)	(606)
Sales and marketing	(597)	(585)
Publications	(289)	(182)
Printing and telecommunications	(249)	(283)
Correspondent charges	(11)	(9)
Legal and professional expenses	(2,178)	(2,133)
Bank and financial expenses	(543)	(444)
Loss prevention initiatives	(281)	(134)
Ship inspection initiatives	(470)	(398)
Operating branch and subsidiary costs	(956)	(786)
Other expenses	(614)	(561)
Total operating expenses	**(21,684)**	**(20,348)**

Note 19
Income tax expense

Amounts in $000	2012	2011
Current taxes on income for the reporting period	(123)	(1,229)
Adjustment in respect of prior periods	(34)	(121)
Overseas taxation	(110)	(66)
Total current tax	**(267)**	**(1,416)**
Deferred tax	–	–
Total deferred tax	**–**	**–**
Income tax expense	**(267)**	**(1,416)**

The weighted average applicable tax rate was 1.9 per cent (2011:2.0 per cent).

Tax on the Association's surplus before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

Amounts in $000	2012	2011
Surplus before tax	11,206	64,033
Tax calculated at domestic tax rates applicable to profits in the respective countries	(2,913)	(17,929)
Effects of		
- Non-taxable transactions	2,680	16,634
- Net adjustment in respect of prior periods	(34)	(121)
Total	**(267)**	**(1,416)**

Note 20
Principal subsidiaries and associates

Name	Country of incorporation	Nature of business	Proportion of shareholding
International P&I Reinsurance Company Limited	Isle of Man	Reinsurance	100%
United Kingdom Mutual Steam Ship Assurance (Europe) Limited	United Kingdom	Insurance	100%
Hydra Insurance Company Limited	Bermuda	Reinsurance	100% of owned cell
The UK Club Private Trust Company Ltd	Bermuda	Investment holding	100%

All subsidiary undertakings are included in the consolidation.

Note 21
Contingencies

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.

The Association like all other insurers, is subject to litigation in the normal course of its business. The Association does not believe that such litigation will have a material effect on its profit or loss and financial condition.

Note 22
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 consolidated statement of comprehensive income except that the internal investment management costs are taken as being the subsidiary company's management fee.

For the five years ended 20th February 2012, the ratio of 9.46 (2011: 9.16) 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 23
Related party transactions

The Association has no share capital and is controlled by the members who are also the insured. The insurance transactions are 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.

Note 23
Related party transactions

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. The Association has a contract with Thomas Miller Holdings Limited which contains a two year termination clause.

Key management compensation

Amounts in $000	2012	2011
Short term employee benefits - Directors' fees	859	866
Total	859	866

Note 24
Explanation of transition to IFRSs

As stated in note 2, these are the Association's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 20th February 2012, the comparative information presented in these financial statements for the year ended 20th February 2012 and in the preparation of an opening IFRS statement of financial position at 21st February 2010 (the Association's date of transition).

In preparing its opening IFRS consolidated statement of financial position, the Association has adjusted amounts reported previously in consolidated financial statements prepared in accordance with accounting principles generally accepted in Bermuda and Canada (previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Association's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application, as provided for by IFRS 1 (Revised 2009) First–Time Adoption of International Financial Reporting Standards, as detailed below.

Designation of financial assets and financial liabilities

At the date of transition, the Association chose to designate according to the IFRS designation criteria, certain of its existing financial assets as 'at fair value through profit or loss'.

Estimates

At the date of transition, the Association's estimates under IFRS are consistent with estimates previously made under accounting principles generally accepted in Bermuda and Canada.

Note 24
Explanation of transition to IFRSs (continued...)

Insurance contracts

The Association has elected to disclose only five years of claims experience data in its claims development tables as permitted in the first financial year in which it adopts IFRS 4 Insurance Contracts. These disclosures will be extended for an additional year in each succeeding year until the 10 year information requirement has been satisfied.

Hedge accounting

In line with the transitional provisions of IFRS 1, the Association will continue to apply hedge accounting for those hedging relationships that meet the criteria of hedge accounting under IFRS. At date of transition, ineffective hedge relationships will continue to be accounted for, but could subsequently be derecognised under IFRS on failing the effectiveness test.

(a) Reconciliation of reserves

Assets	Note	20th February 2011 Previous GAAP	Reallocation difference	IFRSs	20th February 2010 Previous GAAP	Reallocation difference	IFRSs
Financial assets							
Investments	a	1,171,415	(1,171,415)	–	1,036,364	(1,036,364)	–
Financial assets carried at fair value through profit and loss		–	931,130	931,130	–	775,069	775,069
Amounts due from members		79,296	(79,296)	–	138,935	(138,935)	–
Sundry debtors		13,459	(13,459)	–	19,111	(19,111)	–
Loans and receivables including insurance receivables		–	92,754	92,754	–	158,046	158,046
Derivative financial instruments		–	5,436	5,436	–	1,649	1,649
Deferred income tax		–	–	–	–	–	–
Reinsurance contract assets		296,269	–	296,269	333,330	–	333,330
Cash and cash equivalents		44,189	235,414	279,603	30,067	259,646	289,713
Accrued interest		5,078	–	5,078	4,366	–	4,366
Total assets		**1,609,706**	**564**	**1,610,270**	**1,562,143**	**0**	**1,562,143**

Reserves and liabilities	Note	20th February 2011 Previous GAAP	Reallocation difference	IFRSs	20th February 2010 Previous GAAP	Reallocation difference	IFRSs
Capital and reserves attributable to members							
Free reserves		373,317	–	373,317	310,700	–	310,700
Cash flow hedging reserves		5,436	–	5,436	–	–	–
Perpetual subordinated capital securities	b	98,862	(98,862)	–	98,405	(98,405)	–
Other reserves		240	–	240	240	–	240
Total		**477,855**	**(98,862)**	**378,993**	**409,345**	**(98,405)**	**310,940**
Financial liabilities – Perpetual subordinated capital securities	b	–	98,862	98,862	–	98,405	98,405
Total		**477,855**	**–**	**477,855**	**409,345**	**–**	**409,345**
Other liabilities							
Insurance contract liabilities		1,105,103	–	1,105,103	1,131,010	–	1,131,010
Derivative financial instruments		–	565	565	–	–	–
Provisions		937	–	937	931	–	931
Creditors		25,901	(25,901)	–	20,857	(20,857)	–
Trade and other payables		–	25,223	25,223	–	20,387	20,387
Current income tax		–	677	677	–	470	470
Total other liabilities		**1,131,851**	**564**	**1,132,415**	**1,152,798**	**0**	**1,152,798**
Total reserves and liabilities		**1,609,706**	**564**	**1,610,270**	**1,562,143**	**0**	**1,562,143**

The United Kingdom Mutual Steam Ship Association (Bermuda) Limited

(b) Reconciliation of comprehensive income
Reconciliation of comprehensive income for the year ended 20th February 2011

Amounts in $000	Previous GAAP	Reallocation difference	IFRSs
Insurance premium revenue	364,791	–	364,791
Insurance premium ceded to reinsurers	(70,218)	–	(70,218)
Net insurance premium revenue	294,573	–	294,573
Investment return	69,509	(69,509)	–
Investment income	–	19,386	19,386
Net realised gains on financial assets	–	6,719	6,719
Net fair value gains on financial assets through profit and loss	–	31,349	31,349
Other operating income	–	–	–
Net income	**364,082**	**(12,055)**	**352,027**
Net claims incurred	(250,428)	250,428	–
Change in provision for insurance claims	–	36,816	36,816
Reinsurers' share of change in provision for insurance claims	–	(37,031)	(37,031)
Insurance claims and loss adjustment expenses	–	(312,683)	(312,683)
Insurance claims and loss adjustment expenses recovered from reinsurers	–	73,289	73,289
Net insurance benefits and claims	**(250,428)**	**10,819**	**(239,609)**
Expenses for the acquisition of insurance contracts	(20,273)	–	(20,273)
Other operating expenses	(20,348)	–	(20,348)
Foreign exchange gains	–	1,236	1,236
Expenses	(291,049)	12,055	(278,994)
Results from operating activities	73,033	–	73,033
Finance costs	(9,000)	–	(9,000)
Surplus before tax	**64,033**	–	**64,033**
Income tax expense	(1,416)	–	(1,416)
Surplus for the year	**62,617**	–	**62,617**
Other comprehensive income			
Cash flow hedge	5,436	–	5,436
Total comprehensive income for the year	**68,053**	–	**68,053**

(c) Material adjustments to the consolidated statement of cash flows for the year ended 20th February 2011

There are no material differences between the consolidated statement of cash flows presented under IFRSs and presented under previous GAAP.

Index to notes to the reconciliations

Financial assets measurement	a
Other equity securities	b

a. Financial asset measurement

Under accounting principles generally accepted in Bermuda and Canada, all financial assets were carried at fair value through profit and loss. Upon transition to IFRS the Association has elected to designate all financial assets in the category at fair value through profit and loss.

There was no impact on the financial statements upon transition to IFRS.

b. Perpetual subordinated capital securities

Under Bermuda and Canada GAAP these securities were recognised as an equity instrument and coupon interest paid on these securities was recognised as a finance cost in the statement of operations. Under IFRS these securities are classified as a financial liability as there is an obligation to deliver cash or another financial asset to another entity in the form of coupon interest payments. IFRS dictates that the classification of an instrument as liability or an equity instrument determines whether interest, dividends, losses and gains are recognised as an income or an expense or directly in equity. Consequently the interest payments associated with these instruments continue to be recognised as finance costs in the statement of comprehensive income on transition to IFRS.

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

Notice of Meeting

Incorporated under the laws of Bermuda

Notice of Meeting

Notice is hereby given that the forty third Annual General Meeting of the Members of the Association will be held at Le Hotel Bristol, Paris on Monday 29th October, 2012 at 9.00am for the following purposes:-

To receive the Directors' Report and Financial Statements for the year ended 20th February 2012 and if they are approved, to adopt them.

To elect Directors.

To consider amendments to the Rules and Bye-Laws.

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
7th May 2012

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.

UK P&I CLUB

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

Managers
Thomas Miller (Bermuda) Ltd
1st Floor, Chevron House
11 Church Street, Hamilton HM11
Bermuda
Tel: +1 441 292 4724

Managers' Agents
Thomas Miller P&I Ltd
90 Fenchurch Street
London EC3M 4ST
United Kingdom
Tel: +44 20 7283 4646

Thomas Miller Ltd
Level 2 Samuel Harris House
5-11 St Georges Street
Douglas
Isle of Man
IM1 1AJ
United Kingdom
Tel: +44 1624 645200

Thomas Miller (Hellas) Limited
PO Box 80071
5th Floor, 93 Akti Miaouli
Piraeus 185 38
Greece
Tel: +30 210 429 1200

Thomas Miller Americas
Thomas Miller (Americas) Inc
Harborside Financial Center
Plaza Five, Suite 2710
Jersey City, N.J. 07311
USA
Tel: +1 201 557 7300

Thomas Miller Insurance Services
44 Montgomery Street
Suite 1480, San Francisco,
California 94104
USA
Tel: +1 415 956 6537

UK P&I Club Japan Branch
UK P&I Club Japan Branch
8th Floor, Suzuyo-Hamamatsucho Bldg.
2-1-16 Kaigan
Minato-Ku
Tokyo 105-0022
Japan
Tel: +81 3 5442 6110

Thomas Miller Asia Pacific
Thomas Miller (Hong Kong) Ltd
Room 1201-1204, 12/F Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong
Tel: +852 2832 9301

Thomas Miller & Co Ltd
Suite 15, 10th Floor,
Twin Towers (East),
B12 Jianguomenwai Avenue,
Chao Yang District,
Beijing 100022,
People's Republic of China
Tel: +86 10 5123 5025

Thomas Miller & Co Ltd
Shanghai representative office
Unit 905, Ascendas Cross Tower,
318 Fuzhou Road, Huangpu District
Shanghai 200001
People's Republic of China
Tel: +86 21 6321 7001

Thomas Miller (South East Asia) Pte Ltd
61 Robinson Road
12-02 Robinson Centre
Singapore 068893
Tel: +65 6323 6577

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

Managers
Thomas Miller P&I (Europe) Ltd
90 Fenchurch Street
London EC3M 4ST
United Kingdom
Tel: +44 20 7283 4646

UK P&I CLUB
IS MANAGED
BY **THOMAS MILLER**