

TO ALL MEMBERS

14 May 2010

Dear Sirs

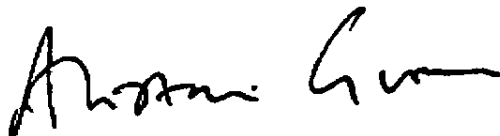
**STANDARD STEAMSHIP OWNERS' PROTECTION & INDEMNITY ASSOCIATION
(EUROPE) LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 20 FEBRUARY 2010**

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

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

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

Yours faithfully



Alistair Groom
Chief Executive
Charles Taylor & Co Ltd



NOTICE OF MEETING

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

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

Business

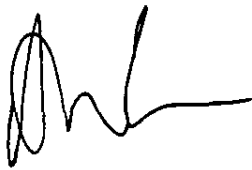
To adopt the Report and Accounts

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

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

Any other business

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



14 May 2010

DIRECTORS

R Menendez Ross
Chairman
Ultrapetrol (Bahamas) S A

R M Jones
CSL International Inc

A J Groom
Manager

J S M Rowe
Manager

Registered in England
Company number 17864

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

Principal activities

The principal activities of the club and its subsidiaries during the year were the insurance and reinsurance of marine protection and indemnity and related risks on behalf of the members

Business review

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

P&I class

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

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

Defence class

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

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

Financial instruments

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

Principal business risks

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

Future outlook

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

Key performance indicators

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

| | 2010 | 2009 |
|----------------------------|-------|------|
| Premium \$m | 103.3 | 74.5 |
| Free reserves \$m | 42.5 | 15.7 |
| Claims cover ^{*1} | 4.79 | 2.89 |
| Combined ratio % | 44 | 60 |

*1 Ratio of net assets to outstanding claims

Directors

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

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

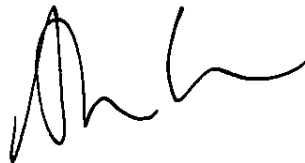
Throughout the year and at the time the report of directors was approved, the club maintained insurance cover for directors and officers against legal liabilities relating to the club's activities

Auditors

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

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

14 May 2010



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations

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

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

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

The financial statements are published on the club's website. The directors are responsible for the maintenance and integrity of the website. Visitors to the website need to be aware that legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

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

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

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

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

Respective responsibilities of directors and auditors

As explained more fully in the Director's Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the club's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matters prescribed by the Companies Act 2006

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

INDEPENDENT AUDITORS REPORT CONTINUED

Matters on which we are required to report by exception

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

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



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

14 May 2010

| | |
|----|-----------------------------------|
| 9 | Income and expenditure account |
| 10 | Balance sheet |
| 11 | Cash flow statement |
| 12 | Notes to the financial statements |

INCOME AND EXPENDITURE ACCOUNT
for the year ended 20 February 2010

| | Notes | Total | | Class 1 - P&I | | Class 2 - Defence | |
|---|-------|---------------|---------------|---------------|---------------|-------------------|--------------|
| | | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Technical account - general business | | | | | | | |
| Income | | | | | | | |
| Gross premiums written including calls | 3 | 103,266 | 74,524 | 98,039 | 70,896 | 5,227 | 3 628 |
| Outward reinsurance premiums | 4 | (59,438) | (57 441) | (55,388) | (54 599) | (4,050) | (2,842) |
| Earned calls, net of reinsurance | | 43,828 | 17,083 | 42,651 | 16,297 | 1,177 | 786 |
| Total income | | 43,828 | 17 083 | 42,651 | 16 297 | 1,177 | 786 |
| Expenditure | | | | | | | |
| Claims paid | | 53,362 | 45 210 | 49,381 | 43,416 | 3,981 | 1 794 |
| Reinsurers' share | | (41,347) | (39,456) | (37,977) | (37,889) | (3,370) | (1 567) |
| Net claims paid | | 12,015 | 5,754 | 11,404 | 5 527 | 611 | 227 |
| Change in provision for claims | | 36,740 | 4,098 | 30,995 | 67 | 5,745 | 4 031 |
| Reinsurers' share | | (33,860) | (1,425) | (28,138) | 2 354 | (5,722) | (3,779) |
| Change in net provision for claims | | 2,880 | 2,673 | 2,857 | 2,421 | 23 | 252 |
| Claims incurred, net of reinsurance | | 14,895 | 8 427 | 14,261 | 7 948 | 634 | 479 |
| Net operating expenses | 5 | 4,519 | 1,906 | 4,395 | 1,854 | 124 | 52 |
| Total expenditure | | 19,414 | 10 333 | 18,656 | 9 802 | 758 | 531 |
| Balance on the technical account for general business | | 24,414 | 6,750 | 23,995 | 6,495 | 419 | 255 |
| Non-technical account | | | | | | | |
| Balance on the technical account for general business | | 24,414 | 6,750 | 23,995 | 6 495 | 419 | 255 |
| Investment income | 6 | 2,456 | 1 805 | 1,692 | 1 612 | 764 | 193 |
| Unrealised gains on investments | 6 | 1,595 | - | 1,595 | - | - | - |
| Investment expenses and charges | 6 | (1,379) | (41) | (1,197) | (17) | (182) | (24) |
| Unrealised losses on investments | 6 | (300) | (2,857) | - | (2 279) | (300) | (578) |
| Exchange gains/(losses) | | 25 | (495) | 43 | (443) | (18) | (52) |
| Excess/(shortfall) of income over expenditure before tax | | 26,811 | 5 162 | 26,128 | 5 368 | 683 | (206) |
| Tax (charge)/credit | 7 | (17) | 281 | (29) | 255 | 12 | 26 |
| Excess/(shortfall) of income over expenditure for the financial year transferred to/(from) contingency reserve | | 26,794 | 5 443 | 26,099 | 5 623 | 695 | (180) |

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

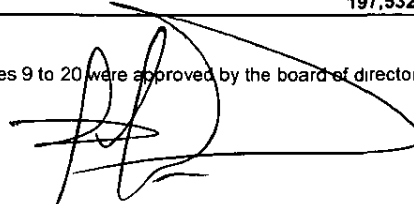
The notes on pages 12 to 20 form part of the accounts

BALANCE SHEET
at 20 February 2010

| | Notes | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|-------|----------------|----------------|----------------|----------------|-------------------|---------------|
| | | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Assets | | | | | | | |
| Investments | | | | | | | |
| Other financial investments | 9 | 20,431 | 20 160 | 17,734 | 17 318 | 2,697 | 2,842 |
| Reinsurers' share of technical provisions | | | | | | | |
| Claims outstanding | 10 | 122,956 | 89 096 | 110,690 | 82 552 | 12,266 | 6,544 |
| Debtors | | | | | | | |
| Debtors arising out of direct insurance operations | 11 | 24,492 | 20 055 | 23,749 | 19,322 | 743 | 733 |
| Amounts owed by group undertakings | | 19,785 | 300 | 19,770 | 300 | 15 | - |
| Other debtors | | 756 | 304 | 288 | 303 | 468 | 1 |
| | | 45,033 | 20,659 | 43,807 | 19,925 | 1,226 | 734 |
| Other assets | | | | | | | |
| Cash at bank and in hand | | 4,869 | 12 101 | 3,752 | 10,285 | 1,117 | 1 816 |
| Prepayments and accrued income | | 4,243 | 4,997 | 3,771 | 4 915 | 472 | 82 |
| | | 9,112 | 17 098 | 7,523 | 15,200 | 1,589 | 1,898 |
| Total assets | | 197,532 | 147,013 | 179,754 | 134 995 | 17,778 | 12,018 |
| Liabilities | | | | | | | |
| Reserves | | | | | | | |
| Contingency reserve | 12 | 42,542 | 15,748 | 41,527 | 15 428 | 1,015 | 320 |
| | | 42,542 | 15,748 | 41,527 | 15 428 | 1,015 | 320 |
| Technical provisions | | | | | | | |
| Gross claims outstanding | 10 | 134,168 | 97,428 | 121,322 | 90,327 | 12,846 | 7 101 |
| Creditors | | | | | | | |
| Creditors arising out of direct insurance operations | | 2,953 | 2,738 | 2,303 | 2 436 | 650 | 302 |
| Other creditors including taxation | | 24 | 351 | 24 | 254 | - | 97 |
| | | 2,977 | 3,089 | 2,327 | 2,690 | 650 | 399 |
| Accruals and deferred income | | 29 | 42 | 27 | 41 | 2 | 1 |
| Deferred tax | 8 | 44 | 56 | - | - | 44 | 56 |
| Amounts owed to group undertakings | | 17,772 | 30 650 | 14,546 | 26,795 | 3,226 | 3,855 |
| Current account between classes | | - | - | 5 | (286) | (5) | 286 |
| | | 20,822 | 33 837 | 16,905 | 29,240 | 3,917 | 4,597 |
| Total liabilities | | 197,532 | 147,013 | 179,754 | 134 995 | 17,778 | 12 018 |

The financial statements on pages 9 to 20 were approved by the board of directors on 14 May 2010 and were signed on its behalf by

R Menendez Ross Chairman
14 May 2010



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

CASH FLOW STATEMENT

for the year ended 20 February 2010

| | Notes | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|-------|------------------|------------------|------------------|------------------|-------------------|------------------|
| | | 2010 US\$ 000 | 2009 US\$ 000 | 2010 US\$ 000 | 2009 US\$ 000 | 2010 US\$ 000 | 2009 US\$ 000 |
| Net cash flow from operating activities | 16 | (8,541) | (7,777) | (7,496) | (9,726) | (1,045) | 1,949 |
| Taxation | | | | | | | |
| United Kingdom Corporation Tax paid | | - | (663) | - | (628) | - | (35) |
| Net (outflow)/inflow | | (8,541) | (8,440) | (7,496) | (10,354) | (1,045) | 1,914 |
| Cash flows were (applied)/invested as follows | | | | | | | |
| (Decrease)/increase in cash holdings | 15 | (7,232) | 1,836 | (6,533) | 959 | (699) | 877 |
| Net portfolio investments | | | | | | | |
| Fixed-income securities | 14 | 3,085 | (10,306) | 3,129 | (11,313) | (44) | 1,007 |
| Equities | 14 | (4,394) | 30 | (4,092) | - | (302) | 30 |
| Net cash flow from investing activities | | (1,309) | (10,276) | (963) | (11,313) | (346) | 1,037 |
| Net (application)/investment of cash flows | | (8,541) | (8,440) | (7,496) | (10,354) | (1,045) | 1,914 |
| Movement in operating and closing portfolio investments | | | | | | | |
| Net cash (outflow)/inflow for the year | 15 | (7,232) | 1,836 | (6,533) | 959 | (699) | 877 |
| Portfolio investments | 14 | (1,309) | (10,276) | (963) | (11,313) | (346) | 1,037 |
| Movement arising from cashflows | | (8,541) | (8,440) | (7,496) | (10,354) | (1,045) | 1,914 |
| Changes in market values | 15 | 1,580 | (2,085) | 1,379 | (1,586) | 201 | (499) |
| Total movement in portfolio investments | | (6,961) | (10,525) | (6,117) | (11,940) | (844) | 1,415 |
| Portfolio investments at 21 February 2009 | | 32,261 | 42,786 | 27,603 | 39,543 | 4,658 | 3,243 |
| Portfolio investments at 20 February 2010 | | 25,300 | 32,261 | 21,486 | 27,603 | 3,814 | 4,658 |

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

NOTES TO THE FINANCIAL STATEMENTS

1 Constitution

The club is limited by guarantee. The members of the club are liable for their rateable proportion of any deficiency of claims and expenses in excess of contributions and the board of directors decides whether any surplus is retained in the contingency reserve for the purposes of the club or returned to members.

2 Accounting policies

(a) Basis of preparation

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

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

Once a year, the directors review and adopt the accounting policies that are most appropriate for the club. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(b) Annual basis of accounting

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

(c) Calls and premiums

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

(d) Claims incurred

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

(e) Claims provisions and related reinsurance recoveries

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

Marine liability claims are long tail in nature and consequently a significant element of the claims provision relates to IBNR. Claims estimates for the club are derived from a combination of loss ratio based estimates and a variety of estimation techniques. These are generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. However,

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

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

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

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

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

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

(f) Reinsurance recoveries

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

(g) Reinsurance premium

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

(h) Investment return

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

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

(i) Investments

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

(j) Foreign currencies

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

(k) General administration expenses

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

(l) Taxation

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 Gross premiums written including calls

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|----------------|---------------|---------------|---------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Estimated total premium, other premiums and releases 2009/10 (2008/09) | 101,346 | 73,263 | 96,734 | 70,094 | 4,612 | 3,169 |
| Adjustment for previous policy years | 1,920 | 1,261 | 1,305 | 802 | 615 | 459 |
| Total calls and premiums | 103,266 | 74,524 | 98,039 | 70,896 | 5,227 | 3,628 |

4 Outward reinsurance premiums

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|---|---------------|---------------|---------------|---------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Quota-share reinsurance premium payable to Standard Reinsurance (Bermuda) Limited | 38,540 | 40,340 | 35,180 | 37,523 | 3,360 | 2,817 |
| Other reinsurance premiums | 20,898 | 17,101 | 20,208 | 17,076 | 690 | 25 |
| Reinsurance premiums paid | 59,438 | 57,441 | 55,388 | 54,599 | 4,050 | 2,842 |

5 Net operating expenses

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|---|--------------|--------------|---------------|--------------|-------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Acquisition costs | | | | | | |
| Management fee | 2,137 | 837 | 2,073 | 812 | 64 | 25 |
| General expenses | 32 | 5 | 32 | 5 | - | - |
| General administration costs | | | | | | |
| Management fee | 2,019 | 791 | 1,958 | 767 | 61 | 24 |
| General expenses | 145 | 114 | 147 | 112 | (2) | 2 |
| Safety & loss control | 115 | 118 | 115 | 118 | - | - |
| Auditors' remuneration for audit services | 38 | 32 | 37 | 31 | 1 | 1 |
| Auditors' remuneration for non-audit services | 33 | 9 | 33 | 9 | - | - |
| Net operating expenses | 4,519 | 1,906 | 4,395 | 1,854 | 124 | 52 |

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

During the year the club obtained the following services from the club's auditor at costs as detailed below

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|-----------|-----------|---------------|-----------|-------------------|----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Audit services | | | | | | |
| Fees payable to the club's auditor for the audit of the club | | | | | | |
| Audit for UK GAAP reporting | 38 | 32 | 37 | 31 | 1 | 1 |
| Non-audit services | | | | | | |
| Fees payable to the club's auditor for other services | | | | | | |
| (a) Other services pursuant to legislation, including the audit of the regulatory return | 27 | 4 | 27 | 4 | - | - |
| (b) Tax services | 6 | 5 | 6 | 5 | - | - |
| | 71 | 41 | 70 | 40 | 1 | 1 |

6 Investment return

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|---|----------------|----------------|----------------|--------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Investment income | | | | | | |
| Income from equities | 82 | 116 | 57 | 86 | 25 | 30 |
| Income from fixed-income securities | 668 | 589 | 609 | 542 | 59 | 47 |
| Deposit interest | 59 | 307 | 56 | 290 | 3 | 17 |
| Gains arising on realisation of investments | 1,647 | 793 | 970 | 694 | 677 | 99 |
| | 2,456 | 1,805 | 1,692 | 1,612 | 764 | 193 |
| Investment expenses and charges | | | | | | |
| Investment management expenses | (17) | (21) | (12) | (16) | (5) | (5) |
| Losses on realisation of investments | (1,362) | (20) | (1,185) | (1) | (177) | (19) |
| | (1,379) | (41) | (1,197) | (17) | (182) | (24) |
| Unrealised gains/(losses) on investments | 1,295 | (2,857) | 1,595 | (2,279) | (300) | (578) |
| Total investment return | 2,372 | (1,093) | 2,090 | (684) | 282 | (409) |

7 Tax charge/(credit)

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|---|-----------|--------------|---------------|--------------|-------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Analysis of tax charge/(credit) for the period | | | | | | |
| Current charge | | | | | | |
| Corporation tax at 28.0% (2009 28.0%) | 16 | - | 16 | - | - | - |
| Prior years | | | | | | |
| Under/(over) provision for prior years | 13 | (219) | 13 | (209) | - | (10) |
| Deferred tax | | | | | | |
| Origination and reversal of timing differences | (12) | (62) | - | (46) | (12) | (16) |
| | 17 | (281) | 29 | (255) | (12) | (26) |

Factors affecting tax charge/(credit) for the period

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 Deferred tax

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|-------------|-------------|---------------|------------|-------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Unrecognised | | | | | | |
| Unrecognised deferred tax asset at 21 February 2009 | 338 | - | 257 | - | 81 | - |
| Unrecognised deferred tax movement | (338) | 338 | (257) | 257 | (81) | 81 |
| <i>Unrecognised deferred tax asset at 20 February 2010</i> | <i>-</i> | <i>338</i> | <i>-</i> | <i>257</i> | <i>-</i> | <i>81</i> |
| Tax losses carried forward | - | 338 | - | 257 | - | 81 |
| | - | 338 | - | 257 | - | 81 |
| Recognised | | | | | | |
| Recognised deferred tax liability at 21 February 2009 | (56) | (118) | - | (46) | (56) | (72) |
| Recognised deferred tax movement | 12 | 62 | - | 46 | 12 | 16 |
| <i>Recognised deferred tax liability at 20 February 2010</i> | <i>(44)</i> | <i>(56)</i> | <i>-</i> | <i>-</i> | <i>(44)</i> | <i>(56)</i> |
| Unrealised gains on investments revalued every year | (44) | (56) | - | - | (44) | (56) |
| | (44) | (56) | - | - | (44) | (56) |

9 Other financial investments

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|---------------|---------------|---------------|---------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| At market value | | | | | | |
| Debt securities and other fixed-income securities | 19,548 | 16 234 | 17,734 | 14,416 | 1,814 | 1 818 |
| Shares and other variable-yield securities and units in unit trusts | 883 | 3,926 | - | 2,902 | 883 | 1,024 |
| <i>Total investments at market value</i> | <i>20,431</i> | <i>20 160</i> | <i>17,734</i> | <i>17 318</i> | <i>2,697</i> | <i>2,842</i> |
| At cost | | | | | | |
| Debt securities and other fixed-income securities | 20,018 | 16,251 | 18,186 | 14,360 | 1,832 | 1 891 |
| Shares and other variable-yield securities and units in unit trusts | 1,340 | 6 131 | - | 5 005 | 1,340 | 1,126 |
| <i>Total investments at cost</i> | <i>21,358</i> | <i>22 382</i> | <i>18,186</i> | <i>19 365</i> | <i>3,172</i> | <i>3,017</i> |
| <i>Included in the carrying values above are amounts in respect of listed investments as follows</i> | | | | | | |
| Debt securities and other fixed-income securities | 9,995 | 11,221 | 9,712 | 10,449 | 283 | 772 |
| Shares and other variable-yield securities and units in unit trusts | 322 | 3,527 | - | 2,902 | 322 | 625 |
| <i>Total listed investments</i> | <i>10,317</i> | <i>14 748</i> | <i>9,712</i> | <i>13,351</i> | <i>605</i> | <i>1,397</i> |

10 Claims outstanding

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|-----------|----------|---------------|----------|-------------------|----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| <i>Open years</i> | | | | | | |
| Claims | 90,741 | 63,107 | 80,643 | 56,505 | 10,098 | 6,602 |
| Reinsurance recoveries | (82,950) | (57,070) | (73,288) | (50,975) | (9,662) | (6,095) |
| <i>Net claims provision for open years</i> | 7,791 | 6,037 | 7,355 | 5,530 | 436 | 507 |
| <i>Closed years</i> | | | | | | |
| Claims | 43,427 | 34,321 | 40,679 | 33,822 | 2,748 | 499 |
| Reinsurance recoveries | (40,006) | (32,026) | (37,402) | (31,577) | (2,604) | (449) |
| <i>Net claims provision for closed years</i> | 3,421 | 2,295 | 3,277 | 2,245 | 144 | 50 |
| <i>Total</i> | | | | | | |
| Claims | 134,168 | 97,428 | 121,322 | 90,327 | 12,846 | 7,101 |
| Reinsurance recoveries | (122,956) | (89,096) | (110,690) | (82,552) | (12,266) | (6,544) |
| <i>Net claims provision</i> | 11,212 | 8,332 | 10,632 | 7,775 | 580 | 557 |

11 Debtors arising out of direct insurance operations

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|---|----------|----------|---------------|----------|-------------------|----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Members | 24,470 | 20,027 | 23,744 | 19,317 | 726 | 710 |
| Intermediaries | 6 | 27 | 5 | 4 | 1 | 23 |
| Reinsurers | 16 | 1 | - | 1 | 16 | - |
| <i>Debtors arising out of direct insurance operations</i> | 24,492 | 20,055 | 23,749 | 19,322 | 743 | 733 |

12 Contingency reserve

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|----------|----------|---------------|----------|-------------------|----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Balance at beginning of year | 15,748 | 10,305 | 15,428 | 9,805 | 320 | 500 |
| Transfer from/(to) non-technical account | 26,794 | 5,443 | 26,099 | 5,623 | 695 | (180) |
| <i>Balance on contingency reserve at end of the year</i> | 42,542 | 15,748 | 41,527 | 15,428 | 1,015 | 320 |

13 Movement in prior year's provision for claims outstanding

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|----------|----------|---------------|----------|-------------------|----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| <i>(Deterioration)/improvement in respect of prior years</i> | (1,073) | (777) | (1,143) | (802) | 70 | 25 |

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 Portfolio investments

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|---|----------------|-----------------|---------------|-----------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Purchase of fixed-income securities | 28,186 | 55,954 | 27,442 | 53,202 | 744 | 2,752 |
| Purchase of equities | 330 | 30 | - | - | 330 | 30 |
| Sale of fixed-income securities | (25,101) | (66,260) | (24,313) | (64,515) | (788) | (1,745) |
| Sale of equities | (4,724) | - | (4,092) | - | (632) | - |
| <i>Net cash flow on portfolio investments</i> | <i>(1,309)</i> | <i>(10,276)</i> | <i>(963)</i> | <i>(11,313)</i> | <i>(346)</i> | <i>1,037</i> |

15 Movements in cash, portfolio investments and financing

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|------------------------------------|---------------|---------------|---------------|---------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| <i>Cash at bank and in hand</i> | | | | | | |
| Balance at 21 February 2009 | 12,101 | 10,265 | 10,285 | 9,326 | 1,816 | 939 |
| Cash flow | (7,232) | 1,836 | (6,533) | 959 | (699) | 877 |
| <i>Balance at 20 February 2010</i> | <i>4,869</i> | <i>12,101</i> | <i>3,752</i> | <i>10,285</i> | <i>1,117</i> | <i>1,816</i> |
| <i>Fixed-income securities</i> | | | | | | |
| Balance at 21 February 2009 | 16,234 | 31,079 | 14,416 | 30,217 | 1,818 | 862 |
| Cash flow | 3,085 | (10,306) | 3,129 | (11,313) | (44) | 1,007 |
| Changes to market value | 229 | (4,539) | 189 | (4,488) | 40 | (51) |
| <i>Balance at 20 February 2010</i> | <i>19,548</i> | <i>16,234</i> | <i>17,734</i> | <i>14,416</i> | <i>1,814</i> | <i>1,818</i> |
| <i>Equities</i> | | | | | | |
| Balance at 21 February 2009 | 3,926 | 1,442 | 2,902 | - | 1,024 | 1,442 |
| Cash flow | (4,394) | 30 | (4,092) | - | (302) | 30 |
| Changes to market value | 1,351 | 2,454 | 1,190 | 2,902 | 161 | (448) |
| <i>Balance at 20 February 2010</i> | <i>883</i> | <i>3,926</i> | <i>-</i> | <i>2,902</i> | <i>883</i> | <i>1,024</i> |

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

| | Total | | Class 1 - P&I | | Class 2 - Defence | |
|--|----------------|----------------|----------------|----------------|-------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 | US\$ 000 |
| Excess/(shortfall) of income over expenditure before tax | 26,811 | 5,162 | 26,128 | 5,368 | 683 | (206) |
| Gains arising on realisation of investments | (1,647) | (793) | (970) | (694) | (677) | (99) |
| Losses arising on realisation of investments | 1,362 | 20 | 1,185 | 1 | 177 | 19 |
| Unrealised (gains)/losses on revaluation of investments | (1,295) | 2,857 | (1,595) | 2,279 | 300 | 578 |
| (Increase)/decrease in debtors | (23,620) | 2,451 | (22,738) | 2,709 | (882) | (258) |
| Increase in net claims provision | 2,880 | 2,673 | 2,857 | 2,421 | 23 | 252 |
| (Decrease)/increase in creditors | (13,032) | (20,147) | (12,363) | (21,810) | (669) | 1,663 |
| Net cash flow from operating activities | (8,541) | (7,777) | (7,496) | (9,726) | (1,045) | 1,949 |

17 Rates of exchange

| | 2010 | 2009 |
|--|-------|-------|
| <i>The following rates of exchange were applicable to US\$1 at 20 February 2010 (2009)</i> | | |
| Australian dollars | 1 13 | 1 51 |
| Bermudan dollars | 1 00 | 1 00 |
| Canadian dollars | 1 06 | 1 24 |
| Euro | 0 73 | 0 77 |
| Japanese yen | 90 00 | 91 97 |
| Singapore dollars | 1 41 | 1 51 |
| Swiss francs | 1 08 | 1 16 |
| UK sterling | 0 64 | 0 69 |

18 Ultimate parent undertaking

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

19 Related parties

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