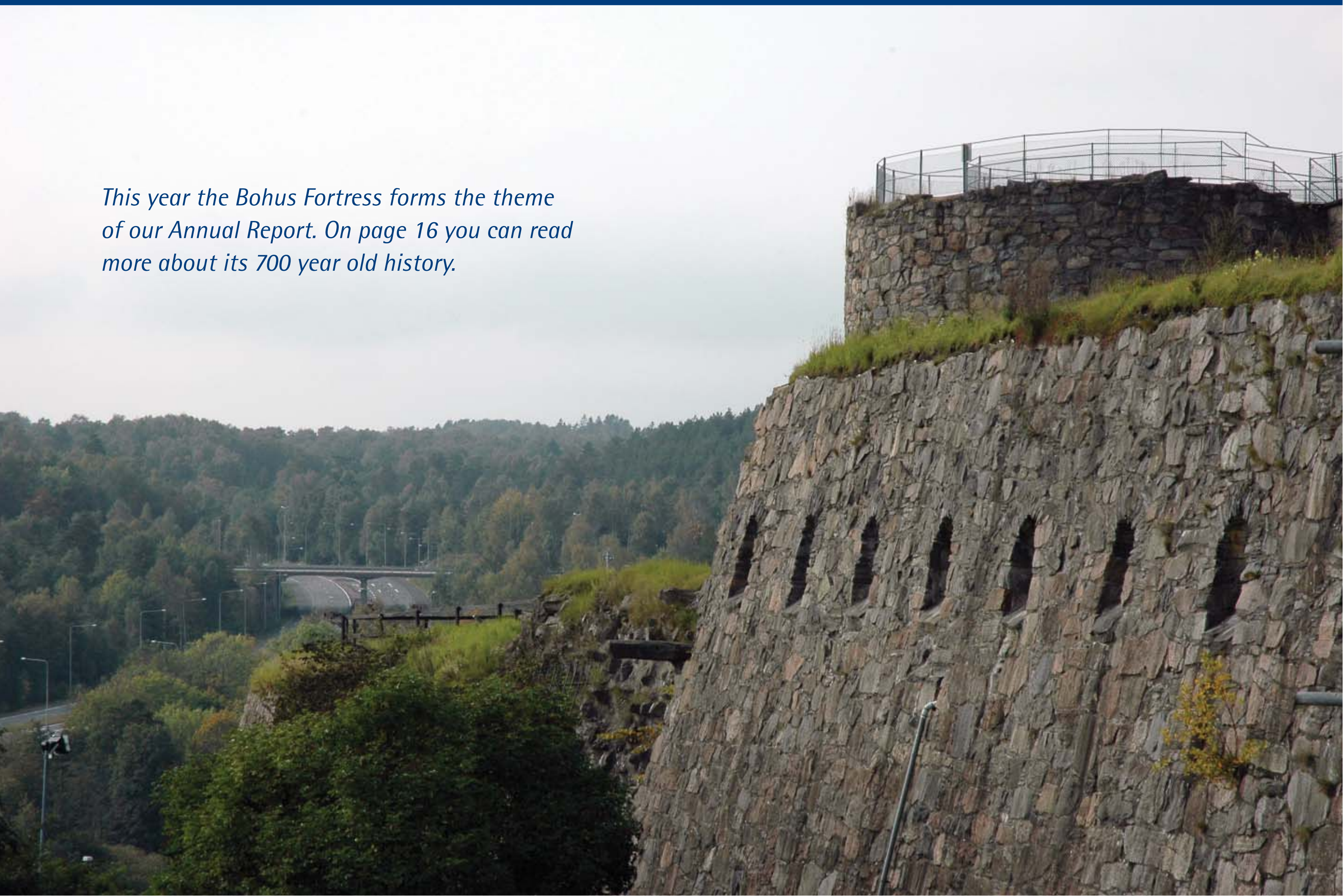
Sveriges Ångfartygs Assurans Förening
The Swedish Club
Est. 1872

Annual Report 2010

for the year ended 31 December

Contents

This year the Bohus Fortress forms the theme of our Annual Report. On page 16 you can read more about its 700 year old history.



2010

Financial highlights

USD thousands	31 Dec 2010	31 Dec 2009	31 Dec 2008	Average
Calls and premiums	160 068	149 964	192 396	167 476
Reinsurance premiums	-36 290	-45 753	-55 890	-45 978
Net claims incurred	-85 520	-78 749	-80 218	-81 496
Financial result	13 526	9 104	-25 720	-1 030
Actual result	29 549	14 849	7 160	17 186
Loss ratio	69%	76%	59%	68%
Expense ratio	18%	19%	17%	18%
Combined ratio	87%	94%	76%	86%

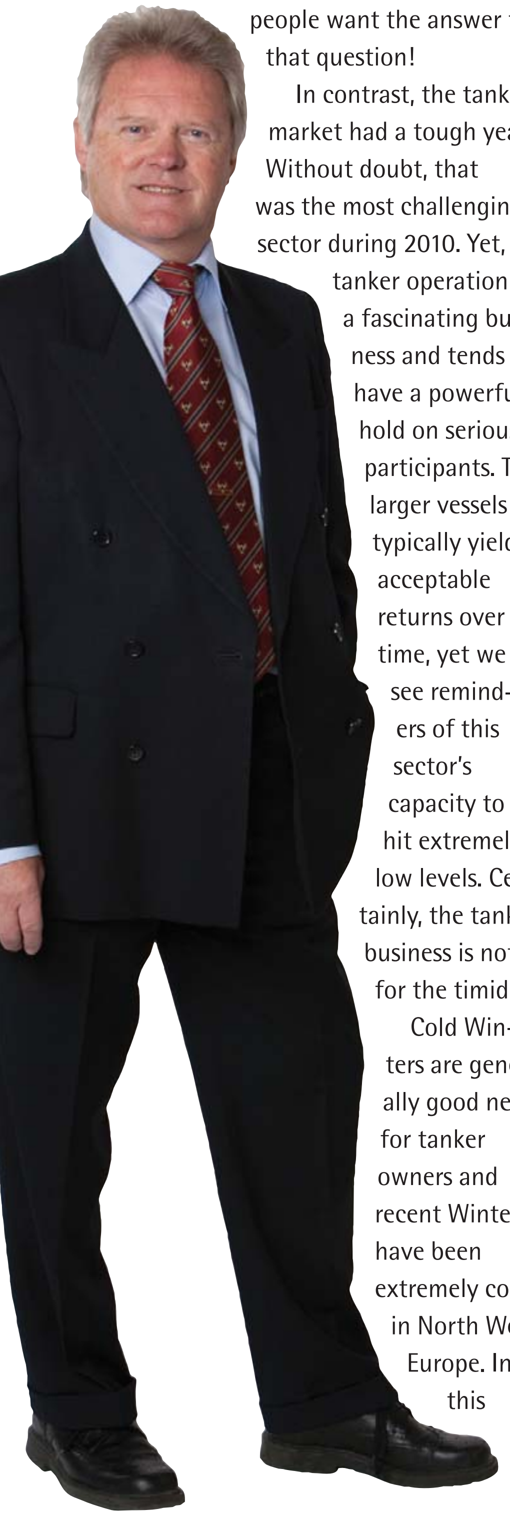
The year in brief

- Strong underwriting performances in all lines of business
- Free reserves again at a record level: USD 151.2 million
- Substantial growth in the P&I portfolio
- Stronger, more diversified and robust Marine book
- The Club enters the Offshore market with an office in Oslo
- A sparkling inaugural year for The Swedish Club Academy
- A year of celebrations:
  - 100 years of P&I
  - 30 years in Greece
  - 10 years with Marine Insurance Cource (MIC)

Putting quality first

Chairman's Overview

There were mixed fortunes across the shipping sectors in 2010. We saw an encouraging bounce-back in the container trades, with strong results from most major players. Is this purely "catch-up", or the beginning of a new advance? Many people want the answer to that question!



In contrast, the tanker market had a tough year. Without doubt, that was the most challenging sector during 2010. Yet, tanker operation is a fascinating business and tends to have a powerful hold on serious participants. The larger vessels typically yield acceptable returns over time, yet we see reminders of this sector's capacity to hit extremely low levels. Certainly, the tanker business is not for the timid!

Cold Winters are generally good news for tanker owners and recent Winters have been extremely cold in North West Europe. In this market the principal question for 2011 is: are we back in business or is the recent upturn temporary in nature?

Uncertainties & optimism

Overall, there was a generally optimistic feel to the New Year. The uncertainties turn on the wild cards in the world economy. What does the future hold for the Euro? What are the prospects for Europe's more exposed economies? No-one has a clear picture of the potential impact of further major financial and economic setbacks. The key barometer remains consumer confidence. On this front, there is always hope of a swift improvement. Expectations are low in this area, but commentators can get it wrong. This could happen...we shall see! In any event, agile brains will find opportunities in all manner of adverse situations.

> **We made excellent progress on all fronts, especially P&I... In terms of solvency we have never been stronger.**

To sum up, there are grounds for cautious optimism but shipping is now a nervous business environment. Furthermore, we have entered a more uncomfortable phase. As recovery takes hold, it becomes increasingly difficult to sit on the fence. Fortunately, however, shipping is not an industry short on self-belief.

Moving forward on a wide front

This was a memorable year for The Swedish Club. We made excellent progress on all fronts, especially P&I. In terms of solvency we have never been stronger. At the same time, we need to keep in mind that 2010 was a year largely free of major claims and humility is a virtue in the insurance business.

The financial results are very encouraging, as is the significant increase in P&I volume. Existing Members placed more ships with us and new Members were attracted by good performance, solvency, stability and our reputation for providing a service concept second to none.

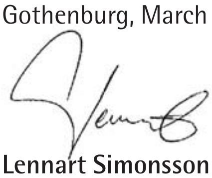
The Swedish Club's Board took important strategic decisions during the year. These concerned, inter alia, diversification and the creation of a new and potentially substantial business line in the Offshore sector.

To conclude, The Swedish Club achieved a strong underwriting result 2010. The feedback received from Members and the broking community, indicates that we have found the right balance between price and quality. In addition, we continue to benefit from the increasing willingness of large owners to spread cover over several clubs. We are always a potential P&I provider, against critical measures such as quality, value and service.

Quality always comes first

On the outlook for future growth, our existing Members are our most effective ambassadors. Much of the new business arises from personal introduction. In this way, we gain opportunities to explain how we bring added value to the provision of insurance. In widening our membership base, we will never deviate from our guiding principle of "Quality First". We intend to attract new Members of quality and demonstrate that the Club is worthy of their trust. The course will be steady in 2011. We are encouraged by the growth achieved in 2010 but we have no interest in volume for its own sake. Quality remains the watchword.

Gothenburg, March 2011



Lennart Simonsson
Chairman
The Swedish Club

Holding a steady course

Managing Director's Comments

The Swedish Club enjoyed a successful 2010 with a very satisfying total outcome. By most measures, this was one of the strongest results in our long history if not the strongest. A Net Combined Ratio of 87 per cent reflects our firm underwriting discipline, high quality of members, a benign claims environment and our new and more cost-efficient reinsurance arrangements.

During the year we celebrated 100 years as a P&I provider. Fittingly, our P&I portfolio passed the 30 million GT milestone. In line with our commitment to safety at sea, we marked the anniversary by a donation to the Swedish Lifeboat Service.

> **Free reserves at January 1, 2011, stood at the record level of USD 151.2 million**

The Club's vigorous progress in 2010 was carefully planned and managed. We believe that good results spring from underwriting discipline and quality business. When the quality is right, positive results will follow, together with an increase in business volume. The many highlights included strong growth in our P&I portfolio, more diversification within the Marine portfolio and the decision to make an entry into the sector of Mobile Offshore Units and FPSO's.

Our new reinsurance arrangements took effect on February 20, establishing a "horizontal layer" across all business lines (with the exception of FD&D and War). We are now able to absorb more risk and have reduced our reinsurance costs.

During 2010 we achieved an operating surplus of USD 17.7 million, with positive results across all business classes, together with investment income of USD 11.8 million, producing a total surplus of USD 29.5 million. Free reserves at January 1, 2011, stood at the record level of USD 151.2 million (USD 121.7 million 12 months earlier).

Strong growth in P&I volume

There was a significant increase in tonnage entered for P&I (Owners and Charterers) cover. This portfolio rose from 39.3 million GT at February 20, 2010, to 46.6 million GT at December 1, 2010. At February 20, 2011, the Club's P&I book totalled 47.0 million GT.

This expansion reflects determined marketing and reinforced perceptions of us as a first class P&I provider. Members placed more ships with us and we also welcomed a number of new Members who share our commitment to quality and service. Growth is an expression of confidence in us, the quality of our service and a promising future.

There were fewer large P&I claims during 2010. Here, it should be acknowledged that large P&I claims (unlike major Hull claims) are essentially random in character. The year did see an increase in the number of attritional claims, especially cases concerning injury and illness.

The Swedish Club, once again, remained free of Pool claims during the year – our last was in 2007. This run of good fortune, together with a major recourse action during 2009, allowed us to make accelerated repayments. As a result, our Pool balance now is substantially better than previously.

Greater diversification of the Marine book

In the Marine sector, we achieved encouraging results and the overall portfolio performed well ahead of forecast. At the year's end the portfolio totalled 60.3 million GT, (48.8 million GT 12 months earlier).

The benign claims picture is linked to global recession, a reduction in shipping activity and, in particular, the wider adoption of slow steaming. In sharp contrast to P&I, there is a strong correlation between Marine claims (especially large navigational claims) and global economic conditions. For this reason alone we expect the frequency of larger claims to increase as economic recovery takes hold. We remain committed to writing quality Marine business; at the same time, we are mindful of the potential for an adverse change in claims frequency.

During the year we made good progress in diversifying the Marine portfolio even further, writing more Increased Value, Loss of Hire and War business. This makes good sense, as it spreads risk and makes the portfolio even more robust.

Offshore: a new business area

The Swedish Club's decision to write Hull & Machinery, Increased Value and Loss of Hire for Mobile Offshore Units, and FPSOs, is another significant diversification move. "Team Energy" is now based at our new office in Oslo – the leading Scandinavian centre for offshore insurance services. Underwriting commenced early in the New Year.

Entry into this market has been under consideration for some time and the timing was right in 2010. There are exciting prospects in this sector and the value of this market as we see it is exceeding USD 300 million. It also has synergies with our existing core businesses. Offshore is a future business area and our entry into this market is a long-term commitment. Furthermore, our new base in Oslo offers us additional opportunities to further develop Norwegian P&I and Marine business.

> **In our view, MRM is the single most important loss prevention initiative taken to date by the international P&I and insurance community**

The Swedish Club Academy makes its debut

Loss prevention is a key priority; this is why we have championed Maritime Resource Management (MRM) training for nearly two decades. Human behaviour, after all, is at the heart of virtually all incidents producing claims. During 2009 we decided to found a separate company to develop the MRM global training network. And on 1 January 2010 The Swedish Club Academy AB came into being, with Martin Hernqvist as Managing Director.

We took this decision at exactly the right time. The Swedish Club Academy is now in a position to seek International Maritime Organization (IMO) recognition, as we move towards the January 1, 2012, date for implementing the Standards of Training, Certification and Watchkeeping "Manila Amendments". This will introduce mandatory training of the MRM type. The new company made excellent progress during its first year of independent operation and added a further 24 licensed training establishments to the network. This brings the total number of licensed providers to 77. In our view, MRM is the single most important loss prevention initiative taken to date by the international P&I and insurance community.

Solvency II and pooling arrangements

The Swedish Club has progressed its programme to comply with "Solvency II", the new capital adequacy regime which will take effect on January 1, 2013. Solvency II became a springboard for us to develop a tailor-made Internal Capital Model which meets the requirements and, in addition, offers an entirely new foundation for "risk-and-return" analysis. The model is already having a highly positive influence across all our activities.

Meanwhile, in mid-2010 the European Commission decided to open an examination of the International Group Agreement (IGA) and pooling arrangements. P&I, in a mutual context, is merely about efficient distribution of insurance costs, rather than an abuse of a dominant position. This point appears unobserved by the Commission. Therefore, the clubs must redouble efforts to explain the functions, purposes and the wider benefits for society at large and shipowners of the IGA arrangement.

Piracy remains a major concern for all shipowners and clubs. In our case, the entered bulk carrier VOC Daisy was attacked in April and it took until October to secure her release. Fortunately, the crew members appeared to be relatively unharmed by this traumatic event This vessel had all-in-one entry with The Swedish Club and we worked "hand in hand" with the shipowner throughout the whole process.

During the year, as always, we received strong support from the Board. This year Anders Källström (Transatlantic), Ingolf Martens (Global Hanseatic) and Christer Olsson (Wallenius) stood down. Mr Olsson served on the Board for 11 years (six years as Chairman). They were replaced by Fred Cheng (Shinyo International), Sun Jia Kang (COSCO Container Lines) and Michael Vinnen (F.A. Vinnen) to the Board.

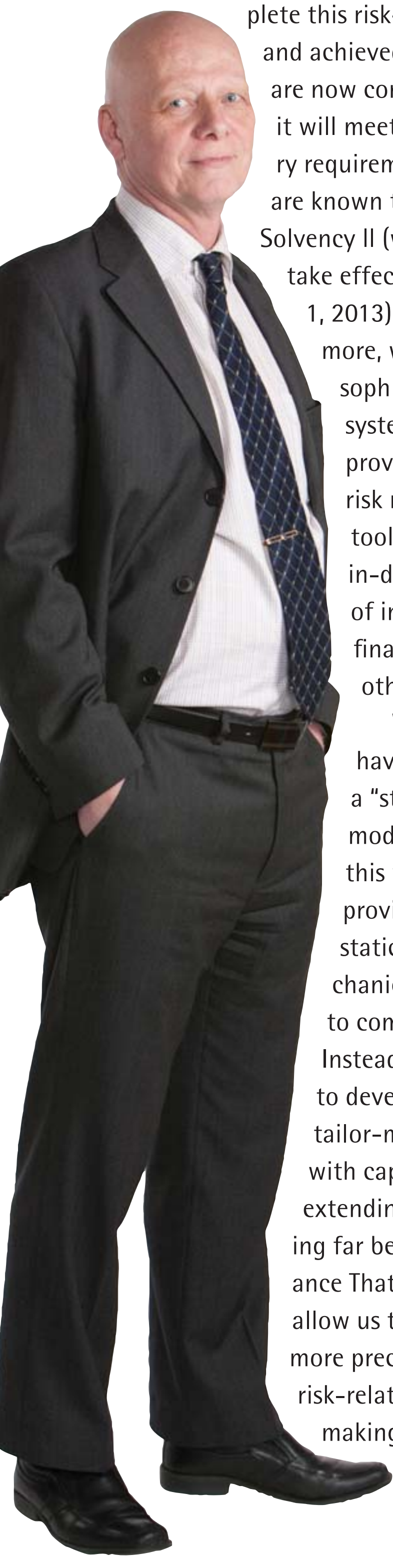
To conclude, we will continue our steady course in 2011, putting quality first in the knowledge that it delivers positive results. In the P&I sector, we expect a continued growth and in the Marine sector we predict business volumes to be relatively stable, but we will definitely not stand still.

Gothenburg, March 2011

Lars Rhodin
Managing Director
The Swedish Club

Risk Management: Solvency II – partnering the regulators

Risk Management



Over a year has passed since we decided to develop a tailored Internal Capital Model. During 2010 we made a major effort to complete this risk-based model and achieved success. We are now confident that it will meet all regulatory requirements, as they are known today, under Solvency II (which will take effect on January 1, 2013). Furthermore, we have a sophisticated system which provides a set of risk management tools for a more in-depth analysis of insurance, financial and other risks.

We could have adopted a "standard model", but this would have provided a rather static or mechanical approach to compliance. Instead we elected to develop a a tailor-made model with capabilities extending and reaching far beyond compliance That decision will allow us to be even more precise in our risk-related decision-making process.

The Club's lead regulator is the Swedish Financial Supervisory Authority. In due course we will submit our application for approval of the model. Meanwhile, the Authority has selected The Swedish Club as one of a small number of insurers to work with during the pre-authorisation process. In a joint initiative, we are exploring compliance issues, to arrive at a robust framework for authorisation. This cooperation will continue throughout 2011. We are confident it will lead to authorisation in good time before implementation.

> ...we elected to develop a tailor-made model with capabilities extending and reaching far beyond compliance, that will allow us to be even more precise in our risk-related decision-making process

Drafting the "ORSA" document

Other important risk management issues during 2010 included our preparations for Solvency II's "ORSA" (Own Risks and Solvency Assessment) requirements. The ORSA annual publication will be a far more substantial document than the current Annual Risk Report. This provides a foundation for all risk and solvency decisions taken by the Board. When approved by the Board, it will be submitted for approval of the Swedish Financial Supervisory Authority.

The main objective is to ensure senior management and teams conducting their own thorough review of risks and to ensure that sufficient capital is held against those risks. The ORSA report is a detailed document. It will set out, at some length, the Club's position regarding capitalisation and risk exposure. During 2010 we produced a draft report and submitted this to the Authority for review and comment, as part of the "Cooperative Pilot Project" with Swedish regulators and received positive feedback on the content and presentation. It is clear that we are on the right track, having achieved a promising degree of correlation between the information we included and the information sought by the regulator. Naturally, there are areas where more data will be required in the final report. These issues are now being addressed, in good time to meet the January 1, 2013, date for implementation.

Gothenburg, March 2011

Mats Lindau

Mats Lindau
Risk and Quality Manager
The Swedish Club

Review of operations

Underwriting: a strong performance

It was a fascinating year with strong results achieved in all business classes. The market was receptive to our messages and we made excellent progress, with substantial additions in the P&I book as well as greater diversification within the Marine portfolio. The underwriting result was also very satisfying. We are entering a new underwriting era, with better informed decision-making thanks to our internal capital model. Our approach is now even more sophisticated and we expect to see further benefits reflected in future results.

In the P&I sector we were pleased with the high quality of the new entries and the even spread achieved between the principal ship types and regions. Growth targets were exceeded by three key measures: the number of new Members, vessel numbers and GT. Clearly, our service delivery has a high recognition in the market and we do receive support in our ambition to rate business responsibly and sustainably over time. There is a growing perception of the Club as a leading P&I provider. We are also enjoying continued support from existing members; in addition we are attracting new members on the back of the high quality service and sustainable rating.

> There is a growing perception of the Club as a leading P&I provider.

P&I: positive portfolio growth

The Swedish Club has a primary objective; to supply insurance solutions to quality minded owners and always put quality before volume, as well as price business sustainably. To sum up, 2010 saw an influx of tonnage entered for P&I. These are quality ships, operated by quality owners who take a positive view of our careful screening of new entries and appreciates our values and service concept.

We were encouraged by the level of organic growth. In addition, we were pleased to welcome new members attracted by our quality of service, a fair approach to rates and our financial strength. The new members have a global spread, with the European and Asian shipping communities particularly well-represented.

The P&I portfolio (including Charterers' P&I) showed a positive growth with an increase from 39.3 million GT at the 20 February, 2010, to 47.0 million GT 12 months later. Our portfolio is well diversified and displays a good balance between owners' and charterers' liability.

In the area of FD&D, the Defence team has experienced a higher than normal workload as a result of the world's financial and economic difficulties. During 2010, however, we saw a return to more normal levels of FD&D activity. The underwriting result was also satisfactory evidencing a surplus of USD 0.6 million.

Marine: a pleasing outcome

Results were strong in the Marine sector. Our Hull business went into surplus during 2009 and we made further progress in 2010. A sound rates structure made an important contribution to positive results – although the absence of major Hull claims was also a significant factor. We now have a more robust Marine portfolio. The major development in this class is more diversification in the business written, with an increase in IV, Loss of Hire and War.

Energy: an important entry

Diversification is beneficial to the Club's future success. A move into the offshore property sector had been under consideration for some time. The conditions were supportive in 2010 and the case for action was tested in detail, using the new Internal Capital Model. By the end of the year "Team Energy" was established and an office had opened in Oslo. Team Energy has a brief to develop an offshore portfolio but also to support further expansion of P&I and Marine business in the important Norwegian market. Without doubt, this is a significant diversification of the Clubs' service as well as an extension of our reach.

Looking ahead

The true measure of our success in 2010 is a net combined ratio well below 100. During the coming year we expect to see some increase in Marine claims frequency. Yet the prospects overall look promising. We see further opportunities to expand through organic growth and the addition of new Members. The focus on quality and results rather than volume per se will continue, good results tend to generate volume. In the Marine sector, we aim to grow the portfolio by adding business written at sustainable rates. As for P&I, we look forward to continued expansion.

Claims: a benign year

The Swedish Club benefited from a benign claims environment, although illness, injury and cargo claims frequencies continued to increase, as they have done over the past five years. The most significant factor in 2010, however, was the absence of large claims. Major P&I claims, of course, are random in nature and a high quality P&I portfolio confers no immunity. In this context, the worst can happen to the best and, occasionally, it does!

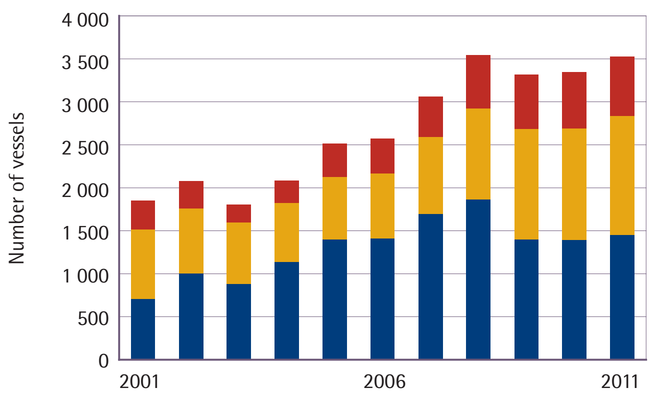
> Claims inflation is still a factor in higher insurance costs.

Turning to Marine, it was an uneventful year in this class, with few large claims. Here we can see a clear correlation between the frequency of claims and prevailing economic conditions. The financial and economic difficulties of recent years have tended to reduce the number of major claims.

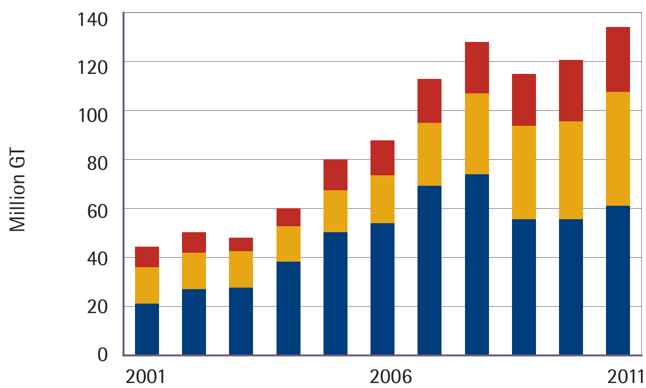
P&I: enhancing the book

Given the random nature of major P&I claims, the main defence is our financial strength and sound portfolio management. But we have more to do to enhance the P&I portfolio and make it even more robust. These efforts will continue during 2011.

Number of vessels – insurance year start

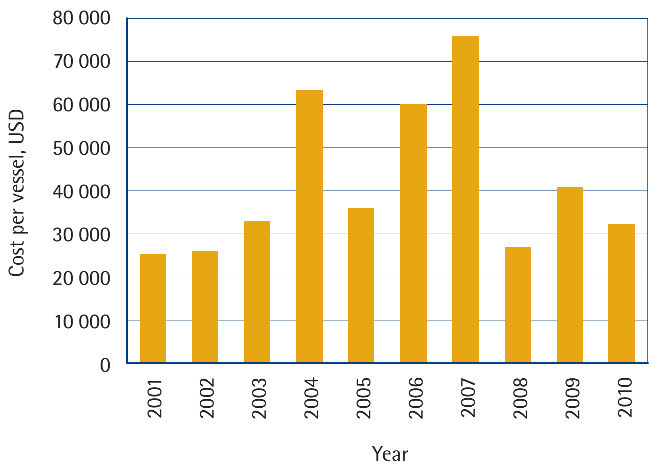


GT – insurance year start

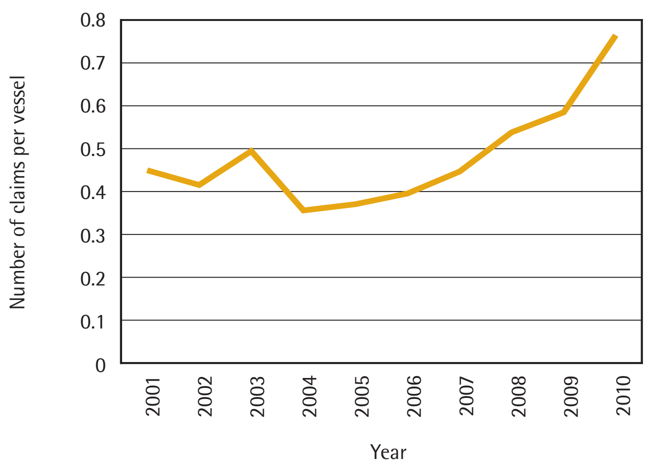


FD&D | P&I + Charterer's P&I | H&M

P&I claims cost per vessel in USD



P&I claims frequency



Looking ahead, we can be sure that shipowners' P&I liabilities will continue to increase. For example, the "Rotterdam Rules" will transfer more responsibility for cargo damage to the shipowner. At this stage it is difficult to estimate the likely impact on P&I costs, but the exclusion of the "error in navigation" defence, together with the general inflation of liabilities, will exert a continued upward pressure on rates.

Marine: large claims will increase

The positive influence of reduced congestion in confined waters, together with the widespread adoption of slow steaming, continued to be apparent during 2010. Given the cost advantage of slow steaming – especially in the container sector – this may even persist as the world economy recovers. Consequently, there could well be a continued beneficial influence on major claims frequency. Slower speeds provide more time on the bridge for potentially critical decisions. At the same time, more traffic in confined waters increases Marine risks. Therefore, the net effect of economic recovery is likely to be some increase in the number of major navigational claims. Naturally, such broad trends apply to marine insurers in general. There are many variables at work and it may take several years before a clear picture emerges.

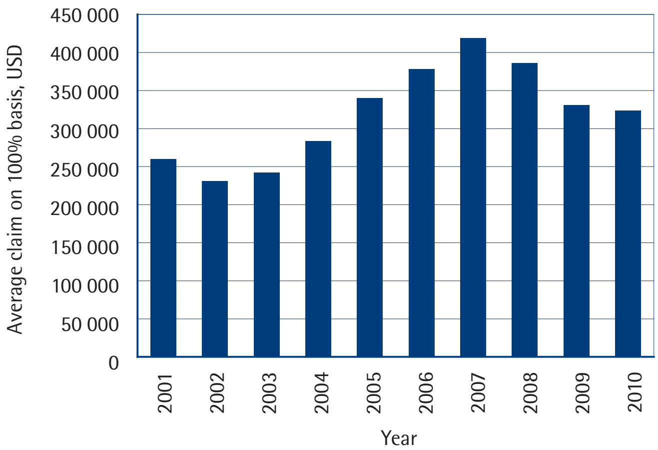
Claims inflation is still a factor in higher insurance costs. While we do not expect a return to the peak inflation levels of the 2006-08 period, the construction of new tonnage remains at a high level and the world's shipyards are still under pressure. Future levels are impossible to forecast, but we expect the inflation to increase in years to come.

Outlook: pressures on frequency and value

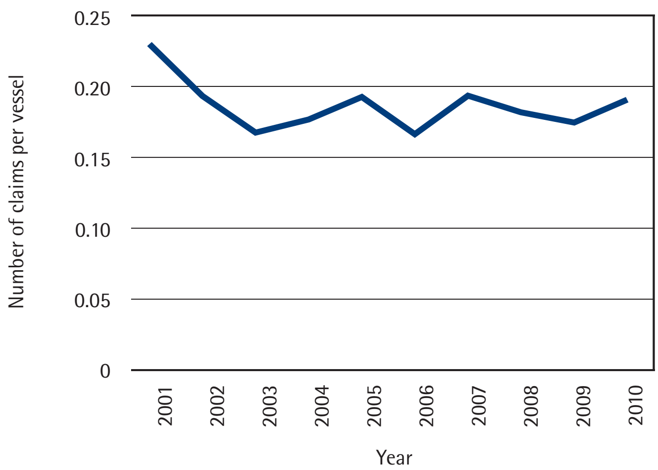
Looking ahead, we anticipate further upward pressure on claims frequency and claims value over the coming year. We will monitor this carefully and continue to be prudent in our underwriting decisions, taking full account of exposures. The IRCA (Interactive Root Cause Analysis) allows us to earlier detect negative trends.

We can also act on these lessons through our global infrastructure – the Maritime Resource Management network that addresses cause at a human level.

H&M average claim in USD



H&M claims frequency



> We will monitor this carefully and continue to be prudent in our underwriting decisions, taking full account of exposures. The IRCA (Interactive Root Cause Analysis) allows us to earlier detect negative trends.

Competence development: growing the organisation

The Swedish Club's business grew during the past year. For the continued delivery of our high service standard, it is important to ensure that the human resources available are sufficient. Enlarging the pool of expertise is an incremental process which requires careful management as we expect further expansion in the years ahead.

Against this background, our Trainee Programme is an important initiative. A number of trainees is admitted each year, with the possibility of subsequently joining the permanent staff. In September 2010 we welcomed three persons – a trainee underwriter and two trainee claims-handlers.

Value-based leadership

During 2009 we accomplished a programme of personal leadership and change management education. This was open to all staff members. During 2010 it was extended into "individual leadership", setting out a value-based approach to leadership and problem-solving.

The emphasis here is on practical leadership training, with decision-making considered in the context of issues specific to roles within the organisation. For example, participants at a claims handlers' conference in Gothenburg during October considered scenarios which they could well face in reality. Each scenario raised "grey areas" requiring careful analysis, interpretation and discussions.

Value-based leadership training offers scope for discussing options and identifying the best course of action, taking in the Club's way of doing things. Participants have opportunities to develop creative solutions and, in doing so, they become more aware of our approach to complex issues. During the final quarter similar training was held for a group of underwriters. Once again, the aim was to foster a uniform approach and emphasise the value of flexibility and innovation.

> Value-based leadership training offers scope for discussing options and identifying the best course of action, taking in the Club's way of doing things.

Towards the end of 2010 we entered a new phase of leadership training, moving on from the Individual Leadership module to Leadership Training for Managers. We have a new generation of managers who will benefit from this initiative. Once again, we will focus on resolving dilemmas by finding solutions which reflect our business principles and core values.

Loss prevention initiative

We also took a fresh look at loss prevention issues. An important initiative was taken in November 2010, with the appointment of a new Loss Prevention Officer. The intention is to further develop our "hands on" approach, and implement new loss prevention projects concerning P&I and Marine risk management. Among other things specific initiatives were; "Claims at a glance" in which our annual claims experience and lessons to learn are fed back to our membership and, "The interactive root cause analysis" which provides us with a powerful tool to address the actual cause rather than the symptoms. Another measure will involve the methodical update of The Swedish Club's "Advisory Checklist for Ships".

Employee Satisfaction Survey

In 2009 we introduced an Employee Satisfaction Survey. This initiative continued during 2010, with a focus on drawing conclusions from the baseline survey and developing appropriate response measures.

One fundamental contributor to satisfaction is leadership quality and the immediate manager's ability to inspire and give feedback through effective communication.

The changes now being progressed include a sharper focus on individual goals during annual appraisals and access to leadership training, so enhancing the opportunity to progress.

The Swedish Club Academy: a successful inaugural year

The Swedish Club Academy AB enjoyed a successful inaugural year. The new company made good progress in developing and expanding the global provision of Maritime Resource Management (MRM) training.

The Swedish Club has supported the MRM approach to training for nearly two decades, and since 1 January 2010 The Swedish Club Academy AB has MRM as its core business. The new company is responsible for the further development in the area, which addresses the human dimension of incident prevention and the promotion of safe behaviour.

During the course of the year we received encouraging feedback from our worldwide network of licensed MRM providers. This network is well distributed across the European and Asian regions and is especially strong in those countries most prominent in the provision of seafarers. We also have a good balance between maritime universities, independent training centres, company training facilities and training centres for pilots. At the end of 2009 there were 54 licensed MRM providers in 24 countries. Twelve months on, this number had risen to 77, in 31 countries.

Development of new modules

The rapid progress is very encouraging. Beyond the addition of a further 20 licensed MRM providers, 2010 saw initiatives designed to create a stable platform for future expansion. The development and refinement of new MRM training modules also progressed as planned.

> Beyond the addition of a further 20 licensed MRM providers, 2010 saw initiatives designed to create a stable platform for future expansion.

These advances have a new significance as resource management training is to become mandatory under the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW). The new requirements (the "Manila Amendments") will take effect from 2012 and requires training of the MRM type. In this context, it is important that MRM is recognised and approved under STCW and that the global network is ready to deliver to a high standard across the world.

There is a strong spirit of innovation within the programme and additional course modules are under development. The first priority is the Pilotage and VTS Module, where we identify how MRM training can make pilotage safer. This deserves priority: The Swedish Club alone deals with an average of about two incidents per week involving pilots.

In most circumstances, of course, the pilot's presence represents an extra layer of safety. Certainly, their activities must prevent an unquantifiable but very substantial number of incidents and consequent claims. In one sense, however, the pilot is no different from anyone else on board – he or she may also make mistakes and contribute to an incident. At present there are too many incidents involving vessels under pilotage. This is not a criticism of existing standards; it is merely an expression of our wish to address the complex human issues and, in doing so, help make pilotage safer. A draft of the new Pilotage and VTS Module will be presented at MRM Workshop Leaders meetings during the first half of 2011.

We are also considering on a module addressing another potentially sensitive area: the ship-shore interface. Furthermore, we are exploring the application of data from The Swedish Club's new Root Cause Analysis system. In this area, MRM providers already emphasise our fundamental belief that anyone can make mistakes and that, unfortunately, the best people quite often make the worst mistakes!

New website

There is a need for more open dialogue and knowledge-sharing. This has encouraged us to construct a new website: www.swedishclub.com/academy This provides a full range of tools for delivering MRM training and there is now an international community of over 300 certified MRM Workshop Leaders who have access to the site. Work also continues on the interesting area of seafarer attitudes. A recent "Mariner Attitude Survey" yielded over 1,000 responses (on a confidential basis). These responses provide new insights into attitudes and behaviour and will help in the early detection of potentially unsafe practices.

Finance: strong investment performance

The Swedish Club's investment portfolio produced a return exceeding USD 11 million in 2010, almost double the USD 6 million budgeted. Nevertheless, the 4.1 per cent return fell marginally below benchmark. The portfolio grew from USD 239 million to USD 297 million. This significant increase, of 25 per cent, reflects strong technical and non-technical results, together with an increased inflow of funds from our expanding business volume.

Investment income was negative during the first half of the year due to falling stock markets – the MSCI global equity benchmark declined by 9.8 per cent. This outcome, however, was more than reversed during the second half, with the index returning 11.8 per cent over the full year. By the close of 2010, global stock markets had recouped most of the losses suffered during the financial crisis. They stood less than 15 per cent below the level of early 2008 – the year in which global equities declined by over 40 per cent.

> The equity portfolio increased by 40 per cent during the year, from USD 44 million to USD 61 million.

Sovereign debt: the main concern

The financial markets' dominant worry was the debt servicing ability of Eurozone governments, with Greece, Ireland and Portugal of particular concern. In May European Union countries (primarily Eurozone), together with the IMF, agreed a package of support for Greece. Similar support was extended to Ireland in November. Several other Eurozone countries, including Spain, Belgium and Italy, are also the subject of concern. The severity of this crisis was a fresh impetus for reduced government spending in most leading Western economies, notably the UK and the US. During 2010 the euro lost 8.5 per cent and the pound sterling lost 2.7 per cent against the US dollar. The Swedish economy is considered strong and the Swedish krona gained 5.7 per cent against the US dollar.

During the December meeting of the Board, Professor Lars Jonung gave an overview of scenarios for the euro. Professor Jonung, an economist specialising in monetary union issues, was an adviser to the European Commission during 2000 – 2010.

Refining investment strategy

We made some minor changes to the Club's investment strategy during 2010. Pound sterling positions were discontinued and euro holdings were reduced. At the same time, global equity positions and US bonds holdings were increased. These changes, inter alia, accommodate the changing spectrum of the Club's liabilities. The equity portfolio increased by 40 per cent during the year, from USD 44 million to USD 61 million. Primarily, this reflects the increase in total portfolio, but there is also an increase in relative exposure to equities.

During March 2010 our US bonds mandate was split between two managers: Hillswick Asset Management and Western Asset Management. Hillswick, a relatively small fund manager, has managed the Club's US bonds since 2000. Hillswick has delivered a strong performance and a favourable ranking among its peers in the field of US bonds portfolio management. Western Asset Management, in contrast, is one of the largest US bonds managers and also has a strong track record. By the year's end, our US bonds holdings were valued at USD 210 million, having returned 4.1 per cent during the year. Euro and pound sterling bond holdings were down in US dollar terms, as a result of currency movements.

A tool for optimising capital use

The coming year will be an exciting period for The Swedish Club, as work on enhanced risk controls continues to advance. At the beginning of the year we started to commission an Internal Capital Model (ICM). This new risk management tool will also meet the Solvency II capital adequacy requirements. By May 2010 the provisional ICM system was in place and already providing decision-making support in many areas, including optimising reinsurance arrangements and modelling a five-year financial forecast for our new line of business: Mobile Offshore Units. This was launched successfully shortly after the close of the reporting period. Developmental work now focuses on enhanced calibration and accuracy, together with model documentation and inputs in areas such as the management of operational risks and counterparty risks.

We are already using the ICM to promote the more efficient use of capital across all areas of underwriting, reinsurance and investment decision-making. It will be an important tool for the Board when considering our appetite for risk. The ICM will also form the basis of our application to the Swedish regulator (Finansinspektionen) for approval regarding Solvency II requirements within the EU, scheduled to take effect from the beginning of 2013.

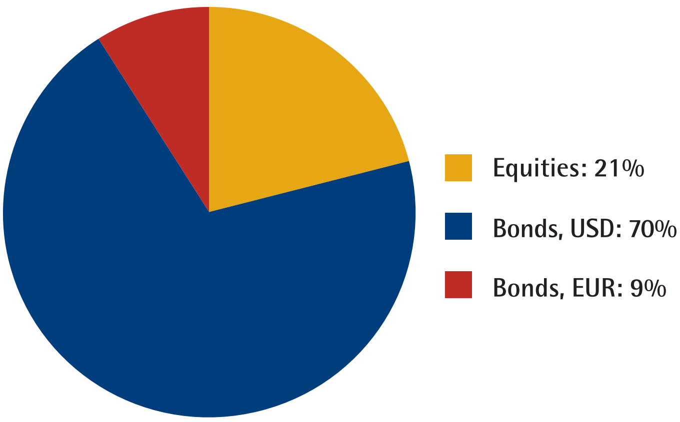
We are already using the ICM to promote the more efficient use of capital across all areas of underwriting, reinsurance and investment decision-making.

2011: new horizons

Financial markets are likely to be strongly influenced by the ability of governments to put in place sustainable budget policies, together with displays of collective political will to back the most indebted Eurozone governments. A combination of strong support mechanisms and continued ECB assistance to governments and financial institutions, as needed, will create conditions for another year with good investment returns. Equally, markets could be adversely affected by any perceived weakening of resolve, or in a situation where the practical implementation of support mechanisms falls short of expectations. An increase in credit spreads in the sovereign bond market would almost certainly influence the cost of funding in the commercial market. As clearly demonstrated in 2008, if the corporate bond market suffers, there may be a decisive impact on stock markets. The key factor during 2011 is the prospect of more clarity on how the Eurozone crisis will be solved (or at least managed). Significantly, an agreement among member states of the size and operation of the European Stability Mechanism (announced on November 28, 2010), will help to dampen market volatility.

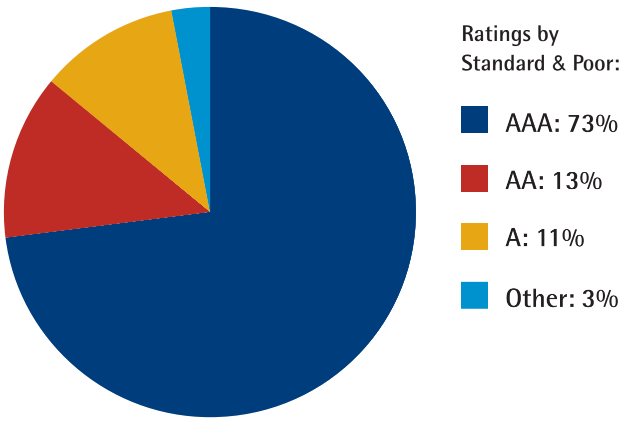
Looking beyond Europe, broad consensus anticipates continued strong growth in the emerging economies – although too much of a good thing is raising concern about excessive fund inflows and potential overheating in some countries. That said, this fast-evolving shift in the balance of global economic power is likely to continue to lend support to exporters of both industrial and consumer goods from the developed economies. At some point during 2011, a stage may be reached where the financial markets' concerns over the future inflationary effects of robust growth supercede any lingering concerns from the recent crisis.

Financial investments by type



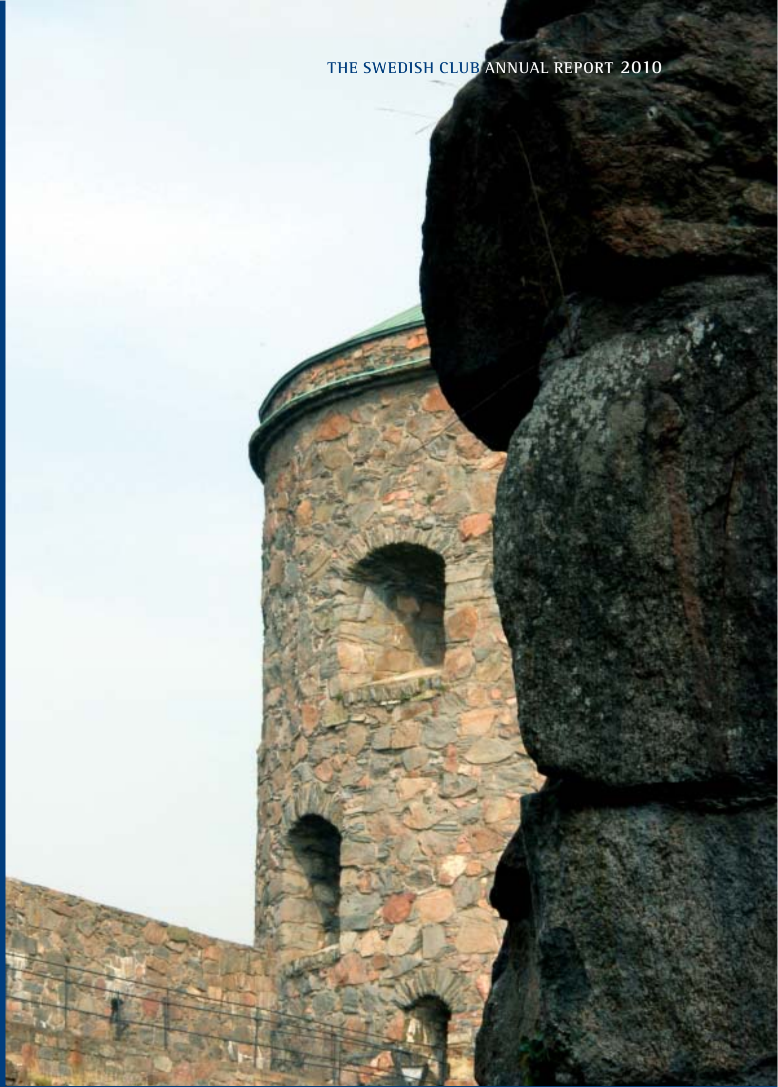
As per 31 December 2010

Quality distribution of bond portfolio



As per 31 December 2010

Five-year summary



Insurance facts	2011	2010	2009	2008	2007
P&I insurance, 20 February					
Number of vessels	994	891	884	910	803
Gross tonnage (Million)	30.9	25.9	24.5	25.1	22.2
FD&D insurance, 20 February					
Number of vessels	753	670	567	581	471
Gross tonnage (Million)	29.1	25.5	21.3	20.9	17.8
H&M insurance, 1 January					
Number of vessels	1,436	1,396	1,400	1,865	1,697
Gross tonnage (Million)	60.2	55.5	55.6	74.8	69.3
Insurance value (USD Million)	50,960	48,344	53,708	76,314	64,586
of which the Club has insured (USD Million)	12,226	11,386	12,648	17,629	13,475

Call history, policy year	2011/12	2010/11	2009/10	2008/09	2007/08
P&I insurance					
General increase	+2.5%	+2.5%	+15%	+15%	+7.5%
Additional call/Estimated additional call	0%	0%	0%	0%	35%
Open/Closed	Open	Open	Open	Closed	Closed
FD&D insurance					
General increase	+10%	+5%	+15%	+10%	+7.5%
Additionalcall/Estimated additional call	0%	0%	0%	0%	0%
Open/Closed	Open	Open	Open	Closed	Closed

Bohus Fortress – a Northern struggle

Bohus Fortress stands on a high cliff along the old Norwegian–Swedish border, 20 km north of Gothenburg, where River Götaälv splits into two branches. The construction began in 1308 under King Haakon V Magnuson of Norway. At the time the province of Bohuslän was Norwegian and served as a main defence against Sweden.

Records show it was constructed, as normal for that period, out of granite and brick. By 1450 it included a continuous surrounding wall, 3 metres thick at the base, with a height of 8.5 to 13.5 metres, varying with the terrain. It was approximately rectangular, with four corner towers.

Finally Sweden won!

The fortress was invested numerous times, but was never captured. During the Nordic Seven Years' War (1563–70) it was seriously damaged, when 250 Swedish soldiers stormed the north-eastern tower. The Norwegian commander sent a volunteer to blow up the ammunition stores underneath, killing the Swedes and repelling the attack. Bohus Fortress was rebuilt and reinforced. As Swedish invasions continuously threatened in this period, the improvements went on for decades.

Under the Treaty of Roskilde in 1658, Denmark-Norway ceded Bohuslän to Sweden. Since the fortress no longer lay on the border it was of less use to Sweden, which relied on the existing Älvsborg Fortress at Gothenburg and Carlsten Fortress erected at Marstrand. These two have already figured in our 2008 and 2009 annual reports.

Prison & demolition

Instead the fortress was used as a prison. Its most famous inmate was the radical pietist Thomas Leopold, who spent 32 years of his life at Bohus – where he also died in 1771 – for his alleged heresies. His stone cell can be visited at the castle today. At the end of the 18th century it was decided that the unused fortress should be demolished. Crews worked for two months before money ran out and residents of the surrounding town of Kungälv used the dressed stones for building houses. Much of the fortress is still intact, including the large northern tower "Fars hatt" (Father's hat), and is now a museum open to tours in the summer.

Bohus Fortress in brief

Built: 1308
Materials: granite, brick
In use: 1308–1789
Controlled by: Norway, Denmark-Norway and Sweden
Read more at:
www.bohusfastning.com

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Board of Directors' report

The Board and the Managing Director of The Swedish Club (Sveriges Ångfartygs Assurans Förening) hereby present their annual report for the year 2010, the Association's 138th year of operation.

Principal activities and structure

The Swedish Club (also referred to in this report as "the Club") is a marine mutual insurer, headquartered in Gothenburg, Sweden, with offices in Hong Kong, Oslo, Piraeus and Tokyo. The Swedish Club is both owned and directly controlled by its members.

The Club's activities concern marine insurance, in the following classes of non-life insurance: Ship (Marine), Ship liability (Protection and Indemnity, P&I) and Defence (Freight Demurrage & Defence, FD&D).

Reinsurance acceptances are in run-off, with a remaining provision for outstanding claims of USD 1 million.

The Club also has a subsidiary which, in accordance with the Swedish Annual Accounts Act 7:5, has not been consolidated as it is of lesser importance regarding to true and fair view requirements.

The Club also has an associated company, The Swedish Club Academy, which is 50% owned.

Significant events during the year

On 20 February 2010, the Club introduced a new reinsurance solution for claims between USD 2 million and USD 10 million. The new solution applies to 75% of the coverage, while the remaining 25% is covered by our traditional reinsurance structure. The purpose of the new structure is to combine the protection for our insurance classes for claims up to USD 10 million. The protection will only provide compensation in a poor claims year, when the claims in this layer exceed the AAD. The new structure has significantly reduced costs for reinsurance premiums.

In September 2010, the Club decided that as of 20 February 2011, it would take out property and business interruption insurance for mobile offshore units. A newly opened office in Oslo will be providing service for this new line of business.

Financial overview

The following is a brief commentary on the income statement and balance sheet. For more detailed information, please see the notes and performance analysis per insurance class.

Result for the period

For 2010, the Club reported a profit before appropriations and tax of USD 29.5 (14.9) million. The majority of the Club's assets are valued in USD. Valuation of assets and liabilities in other currencies than USD has resulted in exchange gains of USD 0.6 (0.2) million.

The relationship between the result expressed in USD and SEK is shown below as a change in solvency capital:

Solvency capital	USDm	SEK/USD	SEKm
December 31 2009	121.7	7.2125	877.5
December 31 2010	151.2	6.8025	1028.6
Result	29.5		151.1

Insurance activities

Gross premiums written in 2010 amounted to USD 163 (149) million. Following the deduction of outward reinsurance premiums totalling USD 33 (46) million, premiums written amounted to USD 130 (103) million. Earned premiums, net of reinsurance, amounted to USD 123 (104) million. Reinsurance premiums are 20% (USD 9.6 million) lower in 2010 compared to 2009. This is a result of the new reinsurance structure that was introduced on 20 February 2010. The new structure enables the Club to purchase considerably less reinsurance for claims in the interval USD 2-10 million. However, the design of the program is as follows: if the frequency is abnormally high for claims within the interval, the reinsurance provides protection for that. Reported premiums for 2010 have been positively affected by the dissolution of a reserve for lay-up returns that was made in 2009. The reserve was dissolved because there no longer appears to be a need for this type of reserve.

A portion of investment income relates to insurance activities. The amount is based on the one year risk-free interest rate and the current year's average technical provisions for own account. The amount of transferred investment income was USD 1.7 (2.1) million. Claims incurred, net of reinsurance, amounted to USD 86 (79) million. In relation to earned premiums, net of reinsurance, this corresponds to 69 (76) per cent.

Operating expenses for insurance activities amounted to USD 22 (20) million. In relation to earned premiums, net of reinsurance, this corresponds to 18 (19) percent.

The balance on the technical account totalled USD 18 (9) million.

Result by class of insurance:

The combined ratio for P&I was 93 percent. As of 31 December 2010, the P&I portfolio, including charterer's liability, consisted of 1,394 (1,216) vessels with gross tonnage of 47 (39) million. Earned premiums, net of reinsurance, amounted to USD 68 (61) million. Claims incurred, net of reinsurance, increased from USD 49 million in 2009 to USD 52 million in 2010. The loss ratio for 2010 was 76 (81) percent.

The combined ratio for FD&D was 90 percent. As of 31 December 2010, the FD&D portfolio consisted of 707 (666) vessels with gross tonnage of 27 (26) million. Earned premiums, net of reinsurance, amounted to USD 5 (4) million. Claims incurred, net of reinsurance, was USD 4 million in 2009 and USD 4 million in 2010. The loss ratio for the year was 75 (86) percent.

The combined ratio for Marine was 79 percent. As of year-end 2010, the Hull & Machinery portfolio consisted of 1,469 (1,358) vessels and a covered insured value of USD 13 (12) billion. For 2010, the number of insured vessels covered for Loss of Hire amounted to 512 (422). Earned premiums, net of reinsurance, amounted to USD 50 (39) million. Claims incurred, net of reinsurance, increased from USD 26 million in 2009 to USD 30 million in 2010. The loss ratio for the year was 59 (66) percent.

Investments

The result from financing activities, including exchange rate differences amounted to USD 14 (9) million. The result from interest-bearing securities was USD 7 (4) million. The result for quoted shares amounted to USD 7 (5) million.

The translation of investment assets into USD resulted in exchange result of USD -1.9 (0.5) million. Exchange gains associated with the provision for outstanding claims amounted to USD 2.2 (-2.1) million. Other currency effects amounted to USD 0.3 (1.8) million. The majority of the Clubs assets are valued in USD. As such, currency effects are primarily related to the weakening of USD against other currencies. As of year-end 2010, the Club's investments amounted to a value corresponding to USD 297 (237) million, of which 80 (81) per cent was interest-bearing securities, 19 (17) per cent was mutual funds.

Balance sheet

The Club's investments increased during the year from USD 237 million to USD 297 million. The increase was due to both good returns and a higher business volume.

Environment

The Swedish Club has an ongoing commitment to reduce its environmental impact. The Club has successfully implemented a paperless electronic claims handling/archiving system. It is also focusing on other ways of reducing its production of documents. For example, we no longer uses pre-printed stationery and documents are more frequently distributed electronically.

Publications sent to members and other stakeholders are now, to the extent possible, distributed as web versions. Otherwise, they are available on the Club's website: www.swedishclub.com

Another ongoing environmental project is the Club's revised travel policy. This goal is to reduce overall travel and to choose more environmentally friendly modes of travel whenever travel is necessary. In addition the Club's Loss Prevention Department has now extended its tasks to include guidance to members on environmentally friendly solutions.

Significant events after the balance sheet date

As of 20 February 2011, the Club will take out property and business interruption insurance for mobile offshore units. A newly opened office in Oslo will be providing service for this new line of business.

Employees

The Club is a knowledge-intensive organisation. The commitment, competence and performance of the employees are decisive factors for success and competitiveness. The Swedish Club intends to remain an attractive employer by having a progressive human resources policy, a healthy organisational culture and well-established core values. As part of this effort, the Board decided to establish a bonus program for employees as of 2011. The maximum total cost of the bonus program has been set at 10 per cent of the Club's salary costs including social security expenses.

The Swedish Club's core values are as follows:

Committed

- We are committed in everything we do
- We build and develop relationships of mutual benefit
- Our service is based on respect and professionalism

Reliable

- We are reliable in our values and we stand behind them
- Through honesty and fair treatment, we are able to gain confidence and ensure continuity

Proactive

- We are proactive in our approach
- We respond in a forward-thinking and proactive manner and focus on cost-efficient solutions

The average number of employees decreased from 93 to 92 during 2010 (see note 24 for more information).

Note 24 also contains information on the principles for establishing salaries and benefits for the Club's management team.

Risks and uncertainties

The Swedish Club's operations give rise to various types of risks that could have an effect on its result and financial position.

There are four main categories of risk:

- Insurance risk
- Reinsurance risk
- Financial risk
- Operational risk

Note 2 contains an overview of how these risks affect operations and how the Club manages them.

At the start of 2010, the Club began implementing an internal capital model (ICM) as a control mechanism for its management process. The model is also used for calculating Solvency Capital Requirements (SCRs) as part of the upcoming Solvency II regulatory requirements. Efforts in this area have made rapid progress and a preliminary version of the capital model was available already in May. The first version of the ICM has provided assistance to the process of structuring reinsurance, as well as with the introduction of the new business area, Mobile Offshore Units, which will start up in 2011. Development efforts are still underway focusing on the model's calibration and precision, documentation, and modelling of complementary aspects, such as operational risk and credit risk.

The model aims to promote more efficient capital utilisation in the following areas: underwriting, reinsurance and investments. This will also be an important tool used by the Board when setting the Club's risk appetite.

Furthermore, the ICM project is an important component of the Swedish Club's preparations for meeting the future requirements contained in the EU Solvency II Directive. During the year, the Club made preparations for the preliminary review process of internal models and it demonstrated for the Swedish Financial Supervisory Authority (Finansinspektionen) how these models will be used as an integrated control mechanism.

The Club plans to fully implement the ICM during 2011 and to be well prepared when Solvency II comes into force, which is expected to occur on 1 January 2013.

Miscellaneous

The annual credit valuation, carried out by Standard & Poor's, was published on 23 August 2010. The Swedish Club retained its rating of BBB, with a stable outlook.

Prospects for 2011

During the last decade, there has been a trend towards higher H&M claims costs per vessel that had started to level off. However, the trend might once again move upwards due to increased activity in the shipping market. But, premium levels are expected to continue to be low in relation to future exposure. The Club will continue its adherence to a restrictive policy when underwriting risks.

Volumes for H&M, IV, Loss of Hire and War are expected to remain at the same level. A slight increase in volumes is expected for P&I and FD&D.

The Club expects that developments in the financial markets will primarily be related to how the debt burden of various European countries is dealt with. If the market becomes convinced that the EU and EURO zone will support those countries with a high debt burden, the expectation is for the investment portfolio to deliver good returns for yet another year. However, the Club has also observed certain indications of disagreement on how to solve this problem and this type of discord could have a damaging effect on the financial markets.

Appropriation of earnings

The Board's proposed appropriation of earnings is presented on page 48.

Five-year summary

Amounts in USD million	2010	2009	2008	2007	2006
Income statement					
Premiums written, gross	163.0	148.6	189.3	142.4	124.3
Earned premiums, gross	160.1	150.0	192.4	135.5	120.2
Earned premiums, f.o.a.[1)]	123.8	104.2	136.5	91.0	82.8
Investment return, allocated from non-technical account[2)]	1.7	2.1	6.2	6.3	5.8
Claims incurred, f.o.a.	-85.5	-78.7	-80.2	-94.1	-78.8
Balance on technical account	17.7	7.8	39.1	-18.0	-6.4
Net profit/loss for the year, after appropriations	0.1	-2.8	-15.3	1.1	2.6
Actual result for the year	29.5	14.8	7.2	-2.3	11.0
Financial position					
Investment assets at fair value	297.5	237.4	185.3	219.8	209.6
Technical provisions, f.o.a.	180.9	154.2	145.9	166.0	142.6
Solvency Capital	151.2	121.7	106.8	99.7	102.0
Deferred tax liability included in solvency capital	42.6	34.4	30.2	30.3	30.7
Regulatory Capital base	150.7	121.6	106.4	98.1	99.6
Regulatory Capital base, including levying right	301.4	243.2	212.8	196.3	199.2
Regulatory solvency margin	31.7	29.9	27.8	32.2	22.0
Key data insurance business					
Loss ratio	69%	76%	59%	103%	95%
Expense ratio	18%	19%	17%	23%	20%
Combined ratio	87%	94%	76%	127%	115%
AER	11.6%	11.4%	10.9%	9.2%	9.1%
Key data asset management					
Investment return[3)]	4%	5%	-13%	13%	12%
Direct yield	2%	2%	2%	3%	3%
Total return	5%	5%	-11%	10%	9%
Other key figures					
Solvency ratio, premiums	122%	117%	78%	110%	123%
Solvency ratio, claims	97%	90%	85%	70%	83%
Regulatory capital base divided by solvency margin	4.8	4.1	3.8	3.0	4.5
Average number of employees	92	93	96	97	89

Definitions are provided on page 56.

1) The figures for 2008 include supplementary calls of 35.1 MUSD for the 2006/07 and 2007/08 insurance years. For the years 2007-2010 the amounts include reinsurance commissions.

2) An allocation model has been used, which is described in note 4.

3) Calculations are based on the principles used internally by the Club for the evaluation of asset management.

Income statement

The financial year January — December. Amounts in USD thousands	Note	2010	2009
Technical account for non-life insurance business			
Earned premiums, net of reinsurance			
Premiums written, gross	3	162 993	148 582
Outward reinsurance premiums		-33 410	-45 791
Change in provision for unearned premiums		-2 925	1 382
Reinsurers'share of change in provision for unearned premiums		-2 880	38
		123 779	**104 211**
Investment return transferred from the non-technical account	4	**1 700**	**2 100**
Claims incurred, net of reinsurance			
Claims paid	5		
Before outgoing reinsurance		-70 267	-171 480
Reinsurers´ share		7 776	100 350
		-62 491	**-71 130**
Change in provision for claims outstanding			
Before outgoing reinsurance		-18 234	76 347
Reinsurers´ share		-4 796	-83 966
		-23 029	**-7 619**
		-85 520	**-78 749**
Net operating expenses	6, 24	**-22 236**	**-19 717**
Balance on technical account		**17 723**	**7 845**
Non-technical account			
Balance on the technical account		**17 723**	**7 845**
Financial result			
Financial income	7	9 059	7 085
Unrealised gains on investments	8	6 270	7 954
Financial costs	9	-1 802	-3 779
Unrealised losses on investments	10	-	-2 156
		13 526	**9 104**
Allocated investment return transferred to the technical account	4	**-1 700**	**-2 100**
Result before appropiations and tax		**29 549**	**14 849**
Appropriations: change in safety reserve		-28 885	-18 269
Result before tax		**664**	**-3 420**
Tax on result for the year	19	-611	656
Profit/loss for the financial year		**54**	**-2 764**

Balance sheet

Assets

As of 31 December. Amounts in USD thousands	Note	2010	2009
Intangible assets			
Intangible assets	11	482	75
		482	**75**
Investment assets			
Investments in group and associated companies			
Shares in group and associated companies	12	11	11
Other financial investment assets			
Quoted shares	13	60 828	43 929
Bonds and other interest-bearing securities	14	231 622	193 478
Loans to credit institutions		5 000	–
		297 461	**237 418**
Reinsurers' share of technical provisions			
Provisions for unearned premiums	15	3 285	6 165
Provision for claims outstanding	15	69 402	75 775
		72 687	**81 939**
Receivables			
Receivables related to direct insurance operations	16	28 524	26 735
Receivables related to reinsurance operations		2 343	5 281
Other receivables		654	593
		31 521	**32 609**
Other assets			
Tangible assets	17	1 056	968
Cash and bank balances		15 443	13 572
Other assets		1 013	955
		17 512	**15 495**
Prepaid expenses and accrued income			
Accrued interest		2 556	1 969
Prepaid acquisition costs		2 375	2 056
Other prepaid expenses and accrued income		501	399
		5 432	**4 423**
Total assets		**425 095**	**371 959**

Equity, provisions and liabilities

As of 31 December. Amounts in USD thousands	Note	2010	2009
Equity			
Statutory reserve		73	69
Accumulated profit or loss		-8 642	-5 878
Profit/Loss for the financial year		54	-2 764
Translation difference capital		334	428
		-8 181	**-8 145**
Untaxed reserves			
Safety reserve		156 902	128 017
Equalisation reserve		1 582	1 492
		158 483	**129 509**
Technical provisions before reinsurers´ share			
Provision for unearned premiums	15	28 652	25 727
Provision for claims outstanding	15	224 889	210 457
		253 540	**236 184**
Provision for other risks and charges			
Pensions and similar obligations	18	2 249	2 121
Deferred tax	19	908	297
		3 157	**2 419**
Liabilities			
Liabilities related to direct insurance operations	20	3 778	3 603
Liabilities related to reinsurance operations		3 902	1 312
Other liabilities	21	9 075	5 947
		16 755	**10 862**
Accrued expenses and deferred income			
Accrued expenses		1 341	1 130
		1 341	**1 130**
Total Equity, provisions and liabilities		**425 095**	**371 959**

Memorandum items	Note	2010	2009
Memorandum items	23		
Assets included in members priority right		306 510	244 725

Change in equity

Amounts in USD thousands	Statutory reserve	Accumulated profit or loss	Translation difference captial	Profit/loss for the financial year	Total equity
Balance brought forward 2009-01-01	64	9 471	537	-15 349	-5 277
Carried forward		-15 349		15 349	
Loss for the year				-2 764	-2 764
Change in translation difference capital	5		-109		-104
Balance carried forward 2009-12-31	**69**	**-5 878**	**428**	**-2 764**	**-8 145**
Balance brought forward 2010-01-01	69	-5 878	428	-2 764	-8 145
Carried forward		-2 764		2 764	
Profit for the year				54	54
Change in translation difference capital	4		-94		-90
Balance carried forward 2010-12-31	**73**	**-8 642**	**334**	**54**	**-8 181**

Profit/loss for the year includes unrealised gains/losses on investments. Deferred tax has been calculated on that portion. See note 19.

Cash flow statement

Amounts in USD thousands	2010	2009
Paid premiums	161 379	184 955
Paid reinsurance premiums	-27 881	-49 776
Claims paid	-70 226	-171 480
Claims paid, reinsurers' share	7 776	100 350
Cash flow from insurance operations	71 048	64 049
Other expenses	-20 383	-17 491
Paid interest		0
Interest received	5 707	5 888
Dividends received	564	101
Cash flow from other operations and from insurance operations	56 936	52 547
Net investments in tangible assets	-227	-103
Net investments in intangible assets	-328	
Acquisition of financial assets held for sale	-69 770	-48 079
Sale of financial investment assets	18 772	
Cash flow from investing activities	-51 553	-48 182
Cash flow for the year	**5 383**	**4 365**
Cash and bank balances		
Cash and bank balances at beginning of the year	13 572	7 022
Cash flow for the year	5 383	4 365
Exchange rate difference on cash and bank balances	-3 512	2 185
Cash and bank balances at year-end	**15 443**	**13 572**

Performance analysis per class of insurance

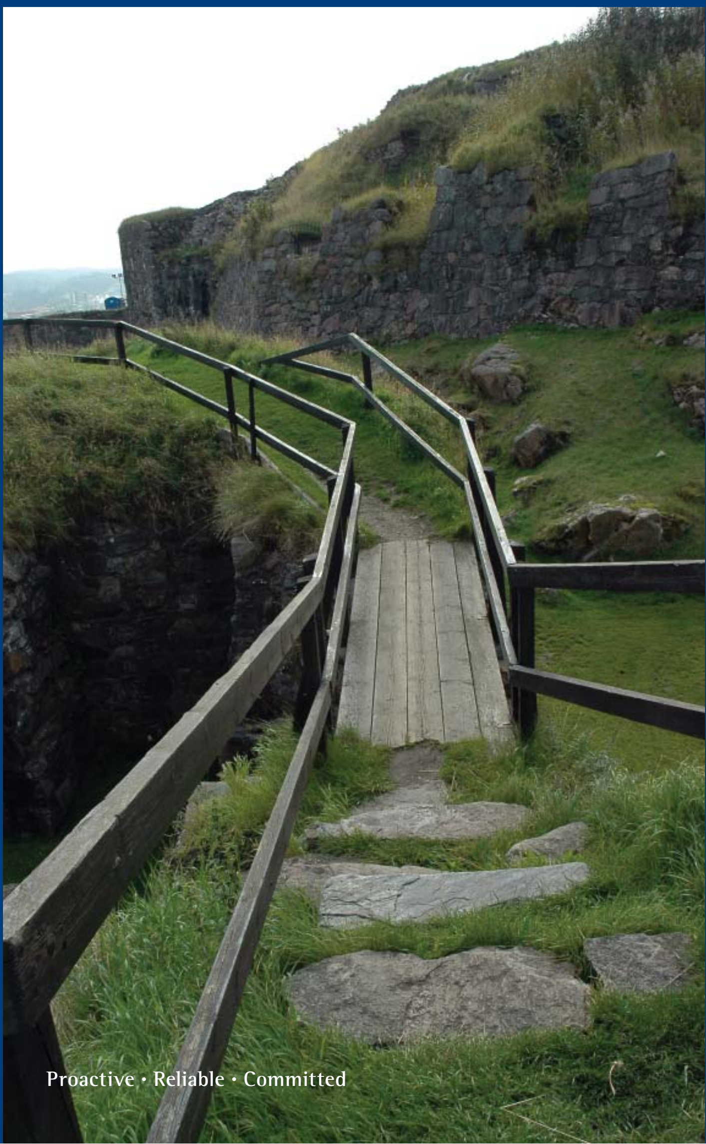
According to Swedish regulations, there is only one class of insurance: marine. However, the Club voluntarily reports on other subclasses. Please see pages 56-57 for an explanation of the classes of insurance.

The financial year January – December 2010. Amounts in USD thousands		Total	P&I	FD&D	Marine
Technical account					
Earned premiums, net of reinsurance					
Premiums written, gross		162 993	86 311	5 569	71 113
Outward reinsurance premiums		-33 410	-16 842	-379	-16 189
Change in provision for unearned premiums		-2 924	-1 309	-62	-1 553
Reinsurers´share of change in provision for unearned premiums		-2 880	108	3	-2 991
	A	**123 779**	**68 268**	**5 131**	**50 380**
Investment return transferred from the non-technical account	B	**1 700**	**1 200**	**100**	**400**
Claims incurred, net of reinsurance					
Claims paid					
Before outgoing reinsurance		-70 136	-32 680	-4 088	-33 368
Reinsurers´ share		7 775	3 299		4 476
Change in provision for claims outstanding					
Before outgoing reinsurance		-18 363	-17 656	293	-1 000
Reinsurers´ share		-4 796	-5 050	-61	315
	C	**-85 520**	**-52 087**	**-3 856**	**-29 577**
Net operating expenses					
External acquisition costs		-10 776	-4 942	-374	-5 460
Operating expenses for renewal of insurance contracts		-6 821	-3 657	-234	-2 929
Adminstrative expenses		-4 639	-2 488	-159	-1 991
	D	**-22 236**	**-11 088**	**-767**	**-10 381**
Balance on technical account	A+B+C+D	**17 723**	**6 293**	**608**	**10 822**
Run-off result (according 5 Chapter 4 § 6 ÅFRL)		3 694	4 331	-885	247
Result outward reinsurance		-33 311	-18 485	-437	-14 389
Result accepted reinsurance		0			
Key figures					
Loss ratio (C/A)		69%	76%	75%	59%
Expense ratio (D/A)		18%	16%	15%	21%
Combined ratio [(C+D)/A]		87%	93%	90%	79%
Combined ratio incl. investment income (C+D)/((A+B)		86%	91%	88%	79%
Three-year average combined ratio		86%	83%	103%	92%
Number of insured vessels		-	1 394	707	1 469
Gross Tonnage (millions)		-	47	27	62
Average share covered (per cent of gross tonnage)		-	100%	100%	25%
Average age (years)		-	11	8	10

Performance analysis per class of insurance

The financial year January – December 2010. Amounts in USD thousands	Total	P&I	FD&D	Marine
Technical provisions				
Before reinsurers´ share				
Provision for unearned premiums	28 652	12 021	680	15 951
Provision for claims outstanding[1]	224 051	160 679	8 102	55 271
	252 703	**172 700**	**8 781**	**71 222**
Reinsurers' share				
Provision for unearned premiums	3 285	2 426	46	813
Provision for claims outstanding	69 402	46 579	340	22 483
	72 687	**49 005**	**386**	**23 296**
For own account				
Provision for unearned premiums	25 367	9 595	634	15 138
Provision for claims outstanding	154 649	114 099	7 762	32 788
	180 016	**123 695**	**8 395**	**47 926**

[1] The provision is reported excluding incoming reinsurance 838 (see note 15).



Note 1. Accounting principles

Statement of compliance with regulations applied

The annual report has been prepared in accordance with the Swedish Annual Accounts Act for Insurance Companies (ÅRFL), the Swedish Financial Supervisory Authority's rules and regulations regarding annual reports for insurance companies (FFFS 2008:26) and the Swedish Financial Accounting Standards Council recommendation RFR 2. Law-limited IFRS has been applied; this refers to the fact that international accounting standards have been applied for use, with limitations following from RFR 2 and FFFS 2008:26. This means that all EU-approved IFRS and statements are applied, as far as is feasible within Swedish law and with consideration of the relationship between accounting and taxation.

Unless otherwise stated, all amounts in the financial statements are in USD thousands.

The Club has a subsidiary which, in accordance with the Swedish Annual Accounts Act, ÅRL 7:5, has not been consolidated, since the company is of lesser importance with regard to true and fair view requirements.

The Club also has an ownership share in the associated company, The Swedish Club Academy.

An associated company is a company in which the Group has a significant but not controlling interest in the operational and financial management, typically through holdings that are between 20 and 50% of the number of votes. Shares in subsidiaries and associated companies are reported in accordance with the cost method. Dividends received are reported as income.

Assumptions that were made when preparing the insurance company's financial statements

USD is the company's functional currency, since the major part of the company's income and costs are in US dollars. It is also the most significant currency regarding provisions in the insurance business and, therefore, the primary environment in which the company runs the business. SEK is the official reporting currency.

The Club converts transactions in foreign currency to the currency rate applicable on the transaction day, both to SEK and to USD. USD is the Club's currency for internal financial reporting and SEK is used in the official Swedish regulatory reporting, in accordance with law-limited IFRS. All amounts, unless stated otherwise, have been rounded off to the nearest thousand.

Assets and liabilities are reported cost, except for certain financial assets and liabilities that are measured at fair value. Financial assets and liabilities measured at fair value consist of forward exchange contracts and financial assets classified as financial assets valued at fair value through the income statement.

Assessments and estimates made when preparing the financial statements In order to prepare the financial statements in accordance with law-limited IFRS, management must make assessments, estimates and assumptions that affect the application of accounting principles and the carrying amounts of assets, liabilities, income and costs.

Estimates and assumptions are based on past experience and a number of other factors that under current circumstances seem to be feasible. The result of these estimates and assumptions are then used when assessing the carrying amounts of assets and liabilities for which the values are not clearly evident from other sources. Actual outcomes can differ from these estimates and assessments. Estimates and assumptions are regularly reviewed. Changes in estimates are reported in the same period that the change occurred, provided that the change only has an effect on that period. Otherwise, changes are reported in the same period that the change occurred and future periods, if the change affects both current and future periods.

Important estimates and assessments regarding technical provisions are based on assumptions about future claims costs, which means that the estimates are always associated with uncertainty. Estimates are based on the Club's own historical statistics on prior claims losses available on the reporting date. The following are examples of items considered when estimating technical provisions: unpaid claims, claims cost development, changes in legislation, judicial decisions and general economic development.

The accounting principles stated below have been applied consistently to all periods presented in the financial statements.

The Board of Directors approved the annual reports for publication on 31 March 2011.

Principles applied

During the year, a number of new and revised standards and interpretations came into effect, none of which have had any significant effect on the Club's financial reports.

A number of new or changed IFRS will come into effect during the next financial year. Early adoption of these new and changed standards did not occur in 2010 and the Club has no plans to adopt the IFRS early. The new IFRS that is expected to have an impact on the Club in the future is IFRS 9 Financial Instruments, which is intended to replace IAS 39 Financial Instruments: Recognition and Measurement as of 2013. The Club has not yet assessed the effects of this standard and it has no plans for early adoption. Other changes to IFRS that have not yet come into force are at the present time, not expected to have any impact on the Club's financial reports.

Insurance contracts
All of the Club's insurance contracts are defined as insurance contracts in accordance with IFRS 4.

Insurance contracts are reported and valued in the income statement and balance sheet in accordance with their financial substance rather than their legal form whenever there is a difference between the two.

Items reported as insurance contracts must transfer substantial insurance risk from the policyholder to the Club. They must also obligate the Club to compensate the policyholder, or another beneficiary, if a predetermined insured event were to occur.

Income tax
Income taxes are comprised of current tax and deferred tax. Income taxes are reported in the income statement. Current tax is tax that is payable or refunded for the current year, applying tax rates that have been decided or effectively adopted as of the reporting date. This also includes adjustments of current tax related to prior periods.

Deferred tax is calculated according to the balance sheet method on the basis of temporary differences between the carrying amounts and tax base values of assets and liabilities. The valuation of deferred tax is based on the extent which the underlying assets and liabilities are expected to be realised or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been decided or effectively adopted as of the reporting date.

Untaxed reserves are reported including deferred tax liability.

Premiums written, gross f.o.a.
Gross premium written is normally reported according to the maturity principle. This means that the gross premium written is reported in the income statement when the annual premium or – in cases where the contractual insurance period's premiums have been divided into several partial premiums – when the first partial premium falls due for payment.

Furthermore, in order for the gross premium written to be included, the term of the underlying insurance contract must start during the current accounting period.

The method described above is also used in a corresponding way for premium written (reinsurers' share).

Premiums earned f.o.a.
The amount of premiums earned that is reported is the portion of gross premium written that is attributable to the accounting period. The share of the premium income from insurance contracts pertaining to periods after the closing date is allocated to the premium reserve in the balance sheet.

Calculation of the provision to the premium reserve is done by allocating the premium income to the proper period based on the underlying term of the insurance contract. The method described above is used also for earned premiums (reinsurers' share).

Investment income transferred from the non-technical account
Investment income is reported in the non-technical result. As of 2006, a model is used for the calculation of investment income transferred from the financial business to the technical account. The model compensates the insurance business with interest for the float generated during the period between premium payment and claim payment. The interest rate that is used corresponds to the interest on one-year risk free investments in the relevant currencies.

Net claims incurred
The total net claims incurred for the accounting period includes claims paid during the period and changes in the provision for claims outstanding. Besides claims, net claims incurred also includes claims handling costs.

The provision for claims outstanding is calculated using expected nominal cash flows.

The provision for claims outstanding net of reinsurance is revalued using the closing day rate of exchange. Historical data on claims payments provides the basis for allocation of the provision to each relevant currency that is used for this calculation. The result of this revaluation is shown under the heading "Investment income" or "Investment costs". Changes in provisions for claims, f.o.a, are therefore reported net of currency revaluation effects.

Net operating expenses
The proportion of the total operating expenses related to claims handling is reported under the heading "Net claims incurred". A portion of net operating expenses is also related to investment administration and this portion is reported as "Internal investment management costs". These costs include both direct costs and indirect allocated costs.

Operating expenses in the insurance business include, besides administrative costs, also acquisition costs.

Since 2007, a model has been used to allocate internal acquisition costs and internal investment administration costs. Before that time, the costs were not allocated (see note 6 and note 9).

Investment income – realised and unrealised profit on investments
Realised profit/loss on sale of investments is equivalent to the difference between the sales price and acquisition cost. The Club's investments are reported at fair value. Unrealised changes in values are reported in the income statement. Such changes can be defined as the year's change between fair value and acquisition cost.

Realised and unrealised profits on interest-bearing securities are calculated by comparing the fair value to amortised cost.

Amortised cost is calculated by adding the accrued acquired overvalues or undervalues to the acquisition cost over the remaining duration. This value is reported as interest in the income statement.

Financial instruments

Financial instruments reported in the balance sheet as assets:

- Accounts receivable – trade (reported under the heading, receivables)
- Quoted shares, bonds and other interest-bearing securities
- Loan receivables (loans to credit institutions)
- Derivatives (forward exchange contracts)

Items reported as liabilities or equity include:

- Trade creditors (reported under the heading, liabilities)

Acquisition and disposal of financial assets are reported on the trading day, which is the day the Club is obliged to acquire or dispose of the asset.

Financial instruments that are not derivatives are initially reported at cost, which is equal to the instrument's fair value plus transaction costs. This applies to all financial instruments, except those that belong to the category, financial assets reported at fair value via the income statement. Those are reported at fair value excluding transaction costs.

A financial instrument is classified at the time when it is reported for the first time, based on the purpose for which the instrument was acquired. The initial classification also determines how the financial instrument shall be valued going forward, as described below.

Derivative instruments are reported both initially and afterwards at fair value.

The Club does not apply hedge accounting.

The Club has classified financial instruments in the following categories, in accordance with IAS 39:

The category "Financial assets valued at fair value through the income statement" consists of two subcategories:

- Financial assets that are held for trading
- Other financial assets that the Club initially chose to recognize in this category (according to the Fair Value Option)

Financial instruments in this category are valued at fair value with changes in value reported in the income statement under the heading, Unrealised gains/losses on investments.

Derivatives with a positive fair value are included in the first subcategory. Derivatives consist of forward exchange contracts that hedge against currency risk exposure.

The other subcategory contains the investment assets (except for derivatives and loan receivables). The Club has chosen to apply the fair value option on assets, since key personnel evaluate all investment assets on the basis of fair value in accordance with documented risk and investment strategies.

The Club classifies such investment assets (i.e. assets that are financial instruments and not shares in subsidiaries) as "Financial assets valued at fair value through the income statement". This is due to the fact that the Club evaluates its asset management activities on the basis of fair values.

The category, "Loan receivables and accounts receivable – trade" are financial assets that are not derivatives. Furthermore, they have determined or determinable payments and they are not listed on an active market. These assets are valued at amortised cost.

Amortised cost is determined based on the effective rate of interest that was calculated at the time of the acquisition. Accounts receivable and loan receivables are reported at net realisable value, i.e. after the deduction for doubtful debts. The category "Financial liabilities valued at fair value through the income statement" consists of two subcategories:

- Financial liabilities that are held for trading
- Other financial liabilities that the Club initially chose to recognize in this category

The first subcategory includes derivatives with a negative fair value. Changes in fair value are reported in the income statement under the heading, Unrealised gains/losses on investments.

Borrowings and other financial liabilities, such as trade creditors, are included in the category, "Other financial liabilities". These are valued at amortised cost.

Calculation of fair value

The following is a summary of the primary methods and assumptions that have been used to determine the fair value of financial instruments:

For financial instruments listed on an active market, investment assets, the fair value is determined on the basis of the asset's listed buying rate on the reporting date, not including transaction costs (e.g. brokerage fees) at the time of acquisition.

A financial instrument is considered to be "listed on an active market" if the listed prices can easily be obtained from any of the following: a stock exchange, dealer, stockbroker, trade association, a company that provides current price information or a supervising authority. Furthermore, the price must represent actual and regularly occurring market transactions on commercial terms.

Any future transaction costs related to disposal are not taken into account.

For financial liabilities, fair value is determined on the basis of the quoted ask price. Such instruments are reported in the balance sheet as, Quoted shares, bonds and other interest-bearing securities.

The majority of the Club's financial instruments are assigned a fair value based on prices listed on an active market. The fair value of derivatives (i.e. forward exchange contracts) is determined using available market data.

The applied valuation techniques are, to the extent possible, based on market data. Company-specific information is used as little as possible.

At each reporting occasion, the Club assesses whether there is any objective evidence that a financial asset or group of assets has become impaired as the result of the occurrence of one or more events (loss events) having taken place after the asset was reported for the first time. Furthermore the loss event(s) must have an impact on the forecasted cash flows for the asset or group of assets.

Intangible assets

Intangible assets are capitalised expenses for the development of computer systems. They are valued at cost less accumulated depreciation and any write-downs. Depreciation is calculated on a straight-line basis over a useful life of five years starting from the time when the system is put into operation.

Tangible assets

Machinery and equipment are reported at cost less accumulated depreciation according to plan, which is based on the useful life of the assets plus any write-downs. Depreciation is calculated on a linear basis over a useful life of three to five years.

Cash and bank balances

Cash and bank includes (with the exception of minor cash amounts) consists of bank accounts and funds that have been transferred to investment management that will not be invested in assets.

Prepaid acquisition costs

The item includes allocated commissions associated with the signing of insurance contracts. These costs are allocated in the same way as the allocation of unearned premiums.

Provision for unearned premiums

The provision for unearned premiums is calculated strictly pro rata (pro rata temporis). In accordance with technical guidelines pertaining to insurance, testing is performed on a regular basis to determine whether a provision needs to be made for remaining risks.

Provision for claims outstanding

The provision for incurred and reported claims is based on individual assessments of claims using information that is available on the reporting date.

Incurred but not reported claims, IBNR, is calculated using statistical methods that are based on past experience of the number and extent of claims reported for prior accounting years.

Pensions costs and pensions commitments

The pension obligations are comprised of pension plans that are regulated through collective agreements and national insurance laws. The obligations consist of both defined contribution and defined benefit plans.

Retirement through insurance

The Club's pension plans for collective pension agreements are secured through insurance agreements. The pension plan for the Club's employees has been assessed as a defined benefit plan covering multiple employers. However, the Club has determined that the Swedish Financial Reporting Board's statement, UFR 6 Pensionsplaner, which covers multiple employers, is also applicable to the Club's pension plan. The Club lacks sufficient information for reporting in accordance with IAS 19. Therefore, in accordance with UFR 6, it reports these pension plans as defined contribution plans. The Club's obligations concerning contributions to defined contribution plans has been reported as a cost in the income statement as they are earned by employees performing services during the period.

Retirement through own management

Besides the collective pension agreements guaranteed through insurance agreements, the Club also has special agreements with certain employees allowing them to retire earlier than 65 years' of age and obtain further compensation in addition to the collective pensions benefits. The majority of the provision originates from the 2006 change of terms in the collective agreement for the insurance sector, which gives employees born before 1956 the right to early retirement from the age of 62.

The calculated provision is based on anticipated future pension payments and it includes assumptions regarding mortality, employee turnover, salary growth and price inflation.

Leasing contracts

The Club has signed contracts in which assets, such as cars and office equipment, are leased for a contracted period of time. Leasing fees are expensed over the term of the agreement based on utilization.

Assets and liabilities in foreign currency

Assets and liabilities in foreign currency are translated to USD at the closing day rates of exchange. However, shares in subsidiaries are valued using rate of exchange prevailing on the acquisition date. For translation from a foreign currency to USD, the difference is reported in the income statement under the heading, Investment income or Investment costs.

For the Club's most important currencies, the following rates (prevailing on 31 December) have been used:

Currency	2010	2009
Swedish kronor (SEK)	6.8025	7.2125
British pound (GBP)	0.6449	0.6280
Euro (EUR)	0.7557	0.6967
Hong Kong dollar (HKD)	7.7743	7.7554
		1 USD equals

Note 2. Risk management and risk analysis

Risk management

At the start of 2010, the Club began implementing an internal capital model (ICM) as a control mechanism for its management process. The model is also used for calculating Solvency Capital Requirements (SCRs) as part of the upcoming Solvency II regulatory requirements. Efforts in this area have made rapid progress, among others because the Club's pricing models could be used as basis for loss generation, and a preliminary version of the capital model was available already in May. The first version of the ICM has provided assistance to the process of structuring reinsurance, as well as with the introduction of the new business area, Mobile Offshore Units, which will start up in 2011. Development efforts are still underway focusing on the model's calibration and precision, documentation, and modelling of complementary aspects, such as operational risk and credit risk.

Furthermore, the ICM project is an important component of the Swedish Club's preparations for meeting the future requirements contained in the EU Solvency II Directive. During the year, the Club made preparations for the preliminary review process of internal models and it demonstrated for the Swedish Financial Supervisory Authority (Finansinspektionen) how these models will be used as an integrated management tool.

The Club plans to fully implement the ICM during 2011 and to be well prepared when Solvency II comes into force, which is expected to occur on 1 January 2013.

Solvency II – the three pillars

Within the EU, comprehensive efforts are underway on a project that is called Solvency II. The aim of this project is to introduce a more risk-based model for calculating solvency requirements. Another aim is to facilitate more proactive supervision within the EU. The main objective is an improved protection of policy holders.

The three pillars approach is as follows:

1. Quantitative requirements for the calculation of capital. Here, two different levels are suggested for the capital base, a minimum level and a targeted level
2. Qualitative requirements pertaining to risk management and internal control
3. Reporting to supervising authorities and external disclosure requirements

The updated requirements are expected to come into force on 1 January 2013.

Risk management framework

The objective of risk management is to support the Club's efforts to achieve the established goals and avoid undesirable operational and financial outcomes. The management team has established a risk management policy that contains the overall goals and guidance for risk management efforts. This risk management policy also establishes the acceptable risk levels that the Club must adhere to while striving to achieve its goals.

Risk management is an integral part of traditional line management responsibilities.

Risks are typically dealt with at the source – i.e. by the team or department where the risk exists. The Risk Manager's role is to ensure that systems for reporting and managing risks have been implemented and that procedures are being followed. The risk compliance function ensures that the Club complies with the relevant laws and regulations. It also monitors that there is conformity with internal directives and policies.

There is a process for risk management, set out in "Risk and Information Security" procedures. This document describes the activities involved in identifying, quantifying, evaluating, reporting and responding to risks. This process is based on systematic, documented reviews of potential risks at various levels within the organisation. The following risk areas have been identified:

- insurance risks
- reinsurance risks
- financial risks
- operational risks

An annual risk management report is prepared for the Club's Board. The report includes a series of risk indices that are based on data from the Club's Claims Experience Model. The report to the Board examines insurance risks (underwriting risk and reserving risk), reinsurance risks, financial risks (market, credit and liquidity) and operational risks. The risk analysis cover such items as inadequate reinsurance coverage and underwriting that conflicts with regulations, as well as the Club's preparedness for major accidents, an office fire, catastrophic IT failure, etc.

An independent internal audit is carried out annually, which includes a formal audit to evaluate the adequacy and effectiveness of the systems for risk management and internal control. Any findings and recommendations of the internal audit are reported to the board, which determines what actions are to be taken with respect to each of the internal audit findings/recommendations. The board also ensures that those actions are carried out.

Allocation of responsibilities and governance

The Club's activities are governed, controlled and monitored in accordance with guidelines and instructions that have been established by the Club's board and managing director. The purpose of these guidelines and instructions is to clarify the allocation of responsibilities within the organisational structure, which is comprised of the following: the AGM, board of directors, managing director, support functions, functions for compliance with regulations and risk management, the actuarial function and internal audit.

The board's overall responsibility may not be delegated. However, the Board has created a Finance & Audit Committee, which is responsible for the administration of certain predefined issues. It prepares these issues so that the Board is able to make an informed decision on them. The minutes from meetings of the Finance & Audit Committee are distributed to the other members of the board as soon as possible after each meeting has taken place.

Risk analysis

The Club's risk exposure is primarily associated with variations in the outcome of Marine and P&I claims, as well as variations in the level of investment returns. However, the Club is also exposed to a number of other risks.

Insurance risks, reinsurance risks, financial risks and operational risks are explained in more detail below:

Insurance risks

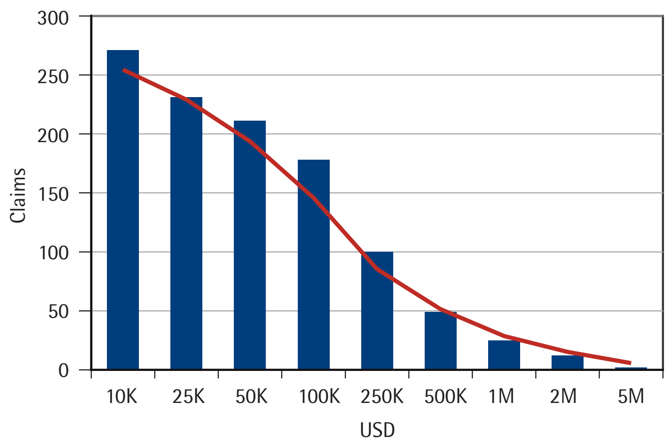
Insurance risks consist of both underwriting risks and reserving risks. Effective management of underwriting risks is fundamental to the Club's operations. Potential member's vessels and management team are thoroughly reviewed prior to acceptance. Rating systems and premium models are used to ensure that correct premium levels have been selected. The Club's comprehensive reinsurance arrangements level out fluctuations in claims results. This helps protect the Club from incurring losses that are associated with very large claims.

The Club has identified a number of key indices that help to ensure the accuracy of claims models. Such models enable the Club to set appropriate premium levels.

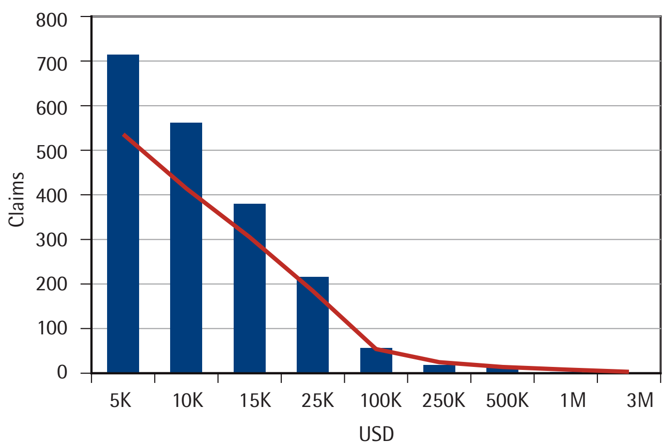
The most important key indices for Marine and P&I are listed below:

- Number of vessels
- Expected gross claims incurred
- Expected claims incurred net of reinsurance
- Estimated maximum negative deviation, once per 10 years (gross)
- Estimated maximum negative deviation, once per 10 years (net of reinsurance)
- Standard deviation/expected claims incurred net of reinsurance

H&M number of claims vs. model 2010



P&I number of claims vs. model 2010



Actual number of claims

Expected number of claims

The graphs show claims incurred during 2010 compared to the expected outcome that was predicted by the Club's H&M and P&I Claims Experience Models. The graphs show that there were fewer large claims but more small claims than expected. Compared to the model, volatility and hence results are more uncertain for large claims.

	Number of vessels	Average age	Gross tonnage (millions)	Average claim duration
P&I	996	12.0	30.7	3
H&M	1 439	9.7	60.3	2

[1] *as of 1 January 2011.*

Concentrations of insurance risk[1]

Insurance risk has a high concentration to the shipping industry. The table to the right shows concentration measures for the two largest individual classes of insurance. The weighted average duration for outstanding claims is approximately 2.7 years.

It is not uncommon for a vessel to fall into more than one of the Swedish Club's business areas. In such cases, the same incident can lead to claims in more than one business area (clash). Based on how the different reinsurance protections have been set up, clash could affect the allocation of claims costs between reinsurers and The Swedish Club. Clash primarily concerns the insurance classes shown in the table below.

Exposure	Number of vessels	P&I	H&M	Loss of Hire	Hull Interest
Four Classes	125	X	X	X	X
Three Classes	3	X	X	X	
	167	X	X		X
	163		X	X	X
Two Classes	94	X	X		
	73		X	X	
	367		X		X
	10	X		X	
	1	X			X
	30			X	X
Vessels per insurance class	1 439		X		
	996	X			
	530			X	
	927				X
Total number of vessels	2 233	-	-	-	-

The table shows the concentration of insurance classes per vessel as of 1 January 2011: 5.6% of vessels were exposed to four insurance classes, 14.9% to three classes and 25.8% to two classes.

Reserving risk is associated with the provision for claims outstanding and the provision for unearned premiums. When calculating the provision for unearned premiums, consideration must be given to differences in risk exposure during the policy period. For example, there are seasonal variations in the frequency/severity of claims between quarters or other periods of time that must be considered. The provision for incurred and reported claims is based on individual assessments of claims using the latest information available. Claims reserves must reflect the total liability, which includes claims handling costs, expected claims inflation and currency considerations. Incurred but not reported claims, IBNR, is calculated using statistical methods that are based on past experience of the number and extent of claims reported for prior accounting years.

Sensitivity of provisions made

The table on the next page shows the development of claims, i.e. how the original provisions for all claims have developed over time (from the end of each respective accounting year through 31 December 2010).

The remaining provision for outstanding claims (and the currency adjustment) and accumulated claims paid, shows the development of claims, gross and net in USD thousands. The sharp negative development of gross claims for the years 2006 and 2007 is due to two exceptionally large claims. The extent of costs for oil clean-up activities and wreck removal for these two cases was difficult to assess at the outset.

The table on the next page shows that the variation in results due to changes in provisions made is higher for the gross amount than it is for the net amount. Also, variations in provisions made had a positive impact on results during the last five years. It is primarily changes in the reserve for large claims that affects the change in the overall technical provision. Since the very large claims have been captured by our reinsurance program, this rarely has any effect on the technical provision for own account. Changes in the technical provision for own account is thus assessed as having a limited effect on solvency capital. However, due to the new reinsurance solution that was introduced in 2010, sensitivity for variations of results will be higher than it has been in prior years.

Claims development, gross[1)]	2005	2006	2007	2008	2009	2010
Provision for claims outstanding, net	123 634	123 341	142 096	124 955	134 682	155 487
Reinsurers´ share of claims outstanding	101 222	108 610	137 777	157 939	75 775	69 402
Provision for claims outstanding, gross	224 856	231 951	279 873	282 894	210 457	224 889
Provision for claims outstanding gross, accounted for in Balance Sheet	**224 856**	**231 951**	**279 873**	**282 894**	**210 457**	**224 889**
Rate of exchange adjustment gross	3 311	4 197	-9 684	977	-3 802	
Provision for claims outstanding, gross after rate of exchange adjustment	228 167	236 148	270 189	283 871	206 655	

[1)] *before 2007 IBNR were accounted for net.*

Claims paid (accumulated), gross	2005	2006	2007	2008	2009
One year later	75 689	121 664	192 061	134 369	44 122
Two years later	114 006	191 173	292 657	158 020	
Three years later	144 446	199 098	307 798		
Four years later	163 478	211 375			
Five years later	172 197				

Provision for claims outstanding	2005	2006	2007	2008	2009
One year later	151 122	156 291	212 251	151 829	154 473
Two years later	104 149	99 703	111 141	119 170	
Three years later	80 083	71 767	90 988		
Four years later	49 270	56 789			
Five years later	40 188				
Development of claims, gross	**15 782**	**–32 016**	**–128 597**	**6 681**	**8 060**

Development of claims, net	2005	2006	2007	2008	2009
Provision for claims outstanding, net	123 634	123 341	142 096	124 955	134 682
Rate of exchange adjustment	2 091	1 898	–5 324	392	–2 225
Provision for claims outstanding, net after rate of exchange adjustment	125 725	125 239	136 772	125 347	132 457

Claims paid (accumulated), net	2005	2006	2007	2008	2009
One year later	44 070	46 826	57 228	40 780	37 346
Two years later	64 789	71 759	75 685	58 816	
Three years later	79 476	83 368	85 910		
Four years later	89 881	91 844			
Five years later	94 824				

Provision for claims outstanding, net	2005	2006	2007	2008	2009
One year later	79 283	74 888	71 250	80 593	91 417
Two years later	60 707	44 184	47 217	57 451	
Three years later	33 252	23 882	34 715		
Four years later	15 959	16 077			
Five years later	12 799				
Development of claims, net	**18 102**	**17 318**	**16 147**	**9 080**	**3 694**

Reinsurance risks

Reinsurance protection is essential for the successful operation of the Club. Reinsurance risks can arise due to insufficient, incorrect or inadequate reinsurance protection. The purchasing activities are centralised and they are the responsibility of the Reinsurance Department. Documented routines are followed in order to ensure correct wording and consistency of contracts. The Reinsurance Manager prepares an annual "Reinsurance Risk Assessment Report". This provides the basis for ensuring that reinsurance protection is set at an appropriate level. Thorough knowledge of probabilities and expected outcomes of claims are important components in assessing the risks associated with reinsurance.

The Club has had a consistent reinsurance strategy for many years. For Marine, the Club purchases its own reinsurance protection. This is based on a long relationship with some of the world's leading reinsurance companies – a collaboration that has been productive for all of the parties involved. For P&I, the reinsurance is based on the cooperation within the International Group of P&I Clubs, where claim costs between USD 8 million and USD 50 million are pooled (the Pooling Agreement). In addition, the Group purchases reinsurance coverage of up to USD 3,050 million (the Pool Reinsurance Programme). The joint reinsurance company is Hydra Insurance Group Ltd (Bermuda). It reinsures the Group's P&I pool claims for USD 20 million in excess of USD 30 million and also part of the layer USD 500 million in excess of USD 50 million.

For more information about International Group, please see www.igpandi.org

In 2010, The Swedish Club introduced a new reinsurance solution for the level USD 8 million excess USD 2 million. It covers 75 per cent of the layer, and the remaining 25 per cent is covered by the traditional reinsurance structure. The purpose is to combine the protection for subclasses under Marine insurance (H&M/IV/LoH) with P&I and to retain the first USD 2 million of each combined loss. With this structure, the Club retains all claims in the layer USD 8 million excess USD 2 million during a normal claims year by means of an annual aggregated deductible (AAD) of USD 30 million. The reinsurance will only come into force in a poor claims year, when the claims in this layer exceed the AAD. One of the advantages of the new structure is that it significantly reduces the costs for reinsurance.

Financial risks

Market, credit and liquidity risks are classified as financial risks. The primary objective is to identify an acceptable risk level from which it can maximize long-term investment returns. The investment portfolio's currency mix and average duration also play an important role when matching the assets and liabilities. The philosophy is based on risk diversification and investments in assets with a high level of creditworthiness. In order to minimise and control risks, the Board of Directors establishes an investment policy (Investment Directive), which governs the composition, control and authority of the portfolio. A model has been developed in order to stress the investments and measure the total value at risk. It is based on the same principles that are suggested in Solvency II and measures the exposure of shares, currencies, interest rates and maturities. According to the model, risk exposure has increased from USD 13 million at the beginning of the year to approximately USD 22 million at the end.

Performance and other factors are measured and reported to the Managing Director monthly. The Audit and Finance Committee is responsible for monitoring debt coverage, outcomes and risks. Follow-up, including sensitivity analysis, is performed and reported quarterly.

2010	Financial assets at fair value through the income statement	Loans and receivables	Total carrying amount	Fair value
	Assets chosen to be recognised in category			
Financial assets				
Shares	60 828	-	60 828	60 828
Bonds and other interest-bearing securities	231 622	-	231 622	231 622
Loans to credit institutions	5 000	-	5 000	5 000
Receivables	-	31 521	31 521	31 521
Total Financial assets	**297 449**	**31 521**	**328 971**	**328 971**

2010	Other financial liabilities	Total carrying amount	Fair value
Financial liabilities			
Other liabilities	16 755	16 755	16 755
Total Financial liabilities	**16 755**	**16 755**	**16 755**

2009	Financial assets at fair value through the income statement	Loans and receivables	Total carrying amount	Fair value
	Assets chosen to be recognised in category			
Financial assets				
Shares	43 929	-	43 929	43 929
Bonds and other interest-bearing securities	193 478	-	193 478	193 478
Receivables	-	32 609	32 609	32 609
Total Financial assets	**237 407**	**32 609**	**270 016**	**270 016**

2009	Other financial liabilities	Total carrying amount	Fair value
Financial liabilities			
Other liabilities	10 862	10 862	10 862
Total Financial liabilities	**10 862**	**10 862**	**10 862**

Valuation methods for market-valued financial assets

2010	Published prices in an active market	Valuation technique based on observable market data	Total fair value reported in the balance sheet
Financial assets valued at fair value via the income statement			
Shares	60 828	-	60 828
Bonds and other interest-bearing securities	231 622	-	231 622
Receivables		31 521	31 521
Sum Financial assets at fair value	**292 449**	**31 521**	**323 971**

Market risks include fluctuations in interest rate, exchange rates and share prices. The Club operates in an international environment, with earnings, expenditures and investments in various currencies. One objective is to hedge investment assets currencies with claims cost currencies, in order to minimise risks. In addition, the Club seeks to match the duration of investments with the anticipated duration of liabilities. As of 31 December 2010, the duration of fixed income securities was 3.1 (2.7) years. A change in interest rates of 1% would result in a change in value of the bond portfolio of approximately USD 7 (5) million.

As of 31 December 2010, currency exposure for the Club's most important currencies was USD 9.6 (13.4) million (see the table, below). As all decisions regarding currency positions are based on a US dollar perspective, the Club has chosen to regard solvency capital as consisting entirely of US dollars.

Currency exposure in USD thousands	EUR	GBP	SEK	Total
Investment assets	25 382		7 844	33 226
Receivables	5 615	2 743	8 059	16 417
Other assets	4 199	782	4 463	9 444
Total assets	**35 196**	**3 526**	**20 366**	**59 087**
Technical provisions, net	-35 753	-92	-144	-35 989
Other creditors and provisions	-2 700	-39	-10 737	-13 476
Total liabilities and provisions	**-38 453**	**-131**	**-10 881**	**-49 465**
Net exposure	**-3 257**	**3 395**	**9 485**	**9 622**

21% of the Club's investments are quoted shares. All equity exposure is in well-diversified funds or in indexed-linked securities with a high rating. Decisions concerning investments and reallocations of equity investments are the responsibility of the Board of Directors via its Finance & Audit Committee.

The main credit risks are associated with the following items: risk of bond failures, reinsurance compensations, receivables from members and guarantees from counterparts.

The likelihood that the Club's result would be significantly impacted by fixed income portfolio defaults has been assessed as quite small. At year-end, the Club had USD 237 (194) million invested in fixed income products. The majority in US Government bonds or treasuries. Investments in bonds with a rating below A are only made through well-diversified funds.

Rating classes of financial assets (Standard & Poor)	AAA	AA	A
Bonds and other interest-bearing securities			
Foreign governments	109 591	-	-
Other foreign issuers	43 726	19 545	25 832
	153 317	**19 545**	**25 832**

One department

In order to minimise the risk of losses relating to payments from reinsurers, the Club has centralised reinsurance purchasing to one department. Furthermore, in accordance with documented procedures, minimum rating limits apply to the participating reinsurers. During 2010, none of the participating reinsurers was rated below A by Standard & Poor's.

In connection with claims handling, the Club occasionally accepts guarantees from counterparts. In general, the Club only accepts guarantees issued by other P&I Clubs, major insurance companies, banks or cash deposits. The number of guarantees is limited and the associated risks are relatively small.

Historically, The Swedish Club has suffered very little from bad debts by members.As of December 2010, premiums more than six months overdue were less than 0.05 (0.4) per cent of the 2010 gross premium.

There is little risk in the short term of the Club becoming short of cash funds, liquidity risk, since the entire investment portfolio can be converted to cash within a few days.

Operational risks

The Club is exposed to many types of operational risk. During 2006, efforts got underway in various parts of the organisation to systematically identify and assess these risks. This was accomplished through self-assessment workshops.

Operational risks are difficult to assess. They tend to occur as a result of inadequate processes, human error or ambiguous management practices. The Club has a history of adequate documentation of critical activities via its quality systems. This working practice ensures that many undesired operational events are avoided.

Important operational risks that must be considered are those associated with a catastrophe scenario, such as an office fire, failure of IT systems, a lengthy power failure. The Club has a contingency plan for such situations, which is updated annually. An IT system failure lasting more than a few days would have a serious impact and it would be essential to restore normal operations as quickly as possible.

Capital requirements

The Swedish Financial Supervisory Authority's oversight of insurance companies includes a quarterly reporting requirement for minimum solvency capital and capital base.

The table below shows that the solvency requirement is low compared to available capital. Alternative calculations are performed to reflect future solvency-related risks, e.g. via the Swedish Financial Supervisory Authority's traffic-light system. Solvency risk is the risk of the Club not being able to meet its obligations to policyholders.

Capital base and solvency requirement, USD million

	2010	2009	Change
Capital base	150.7	121.6	29.1
Solvency capital requirement	31.7	29.9	-1.8
Surplus	119.0	91.7	27.3

Note 3. Premiums written, gross per geographic area	Direct insurance	2010	2009
Greece	42 888	42 888	43 710
Germany	40 437	40 437	35 080
China	26 851	26 851	24 244
Sweden	10 320	10 320	9 921
Other countries	42 497	42 497	35 626
Reinsurance acceptances		-	0
	162 993	**162 993**	**148 582**

Note 4. Investment return transferred from the non-technical account	2010	2009
Allocated investment return transferred to the technical account	**1 700**	**2 100**

Investment income is reported in the non-technical result. From 2006 a model is used for the calculation of investment income transferred from the financial business to the technical account. The model compensates the insurance business with interest for the float generated during the period between premium payment and claim payment. The interest rate used corresponds to the interest on one-year risk free investments . The following interest rates were used in the calculation:

	2010	2009
Average interest rate	1.2%	1.8%

Note 5. Claims paid	2010			2009		
	Gross	Reinsurers share	Net	Gross	Reinsurers share	Net
Current year: claims paid	-19 435	1 000	-18 435	-29 972	6 761	-23 211
claims handling costs	-7 142		-7 142	-5 349		-5 349
Previous years: claims paid	-43 690	6 776	-36 914	-136 159	93 589	-42 570
	-70 267	**7 776**	**-62 491**	**-171 480**	**100 350**	**-71 130**

Note 6. Net operating expenses	2010	2009
Specification of net operating expenses reported in the income statement		
Acquisition costs	-11 095	-10 096
Change in deferred acquisition costs	319	-157
Internal operating expenses for acquisition of insurance contracts	-6 821	-6 206
Acquisition costs	-17 597	-16 460
Reinsurance commissions, outward reinsurance		
Administrative expenses	-4 639	-3 257
Net operating expenses	**-22 236**	**-19 717**
Allocation of other operating expenses in income statement:		
Administrative expenses claims handling reported as claims paid	-7 142	-5 349
Administrative expenses finance reported as investment costs	-834	-564
	-30 212	-25 630

Total operating expenses analysed under the following categories:

Advertising and selling expenses	-700	-591
Personnel costs	-12 069	-11 318
Travel expenses	-894	-643
Cost of premises	-1 319	-1 253
Office Expenses	-2 443	-1 525
External services and fees[1)]	-3 162	-1 834
Depreciation	-300	-547
Charged claims handling cost	3 477	4 531
Other revenue	242	299
External acquisition costs	-10 776	-10 254
Costs for The Swedish Club Hong Kong Limited	-2 269	-2 495
	-30 212	-25 630

[1)] Operating expenses includes remuneration for audit engagements to KPMG for USD -90 (2009: -87) thousands, along with other auditing tasks in addition to the audit engagement for USD -33(2009 : -38). In addition, renumeration was paid to PWC related to the independent review function for USD -14 (2009: -12) thousand.

Total operating expenses analysed under the following categories, including The Swedish Club Hong Kong Limited:

Advertising and selling expenses	-784	-632
Personnel costs	-13 577	-13 109
Travel expenses	-1 053	-764
Cost of premises	-1 668	-1 596
Office expenses	-2 552	-1 668
External services and fees	-3 221	-1 889
Depreciation	-300	-548
Charged claims handling cost	3 477	4 531
Other revenue	242	299
External acquisition costs	-10 776	-10 254
	-30 212	-25 630

Note 7. Financial income	2010	2009
Dividends on Quoted shares	564	101
Interest income		
Bonds and other interest-bearing securities	5 213	5 209
Other interest income	1 092	360
	6 305	5 569
Gains on foreign exchange, net	641	192
Gains on the realisation of investments, net:		
Quoted shares	2	-
Bonds and other interest-bearing securities	1 419	950
Forward currency contracts	128	273
	2 190	1 415
	9 059	**7 085**

Note 8. Unrealised gains on investments	2010	2009
Quoted shares	6 018	7 954
Bonds and other interest-bearing securities	252	-
	6 270	**7 954**

Note 9. Financial costs	2010	2009
Internal management expenses	-834	-564
External management expenses	-540	-378
Interest costs	-4	-0
Losses on the realisation of investments, net		
Bonds and other interest-bearing securities	-	0
Quoted shares	-	-2 837
Forward currency contracts	-424	-
	-1 802	**-3 779**

Note 10. Unrealised losses on investments	2010	2009
Bonds and other interest-bearing securities	-	-2 156
	-	**-2 156**

Note 11. Intangible assets	2010	2009
Capitalised expenditure on computer software system		
Opening acccumulated costs	5 396	6 018
Purchases	475	-
Revaluation of accumulated acquisition costs	328	-
Accumulated acquisition costs carried forward	6 199	6 018
Opening acccumulated depreciation	-5 321	-5 619
Depreciation for the year	-73	-319
Revaluation of depreciation	-323	-5
Accumulated depreciation carried forward	-5 717	-5 943
	482	**75**

Depreciation is accounted for in the income statement under net operating expenses.

Note 12. Shares in groups and associated companies	2010	2009
Non-quoted shares in subsidiaries:		
The Swedish Club Hong Kong Limited		
1 share nominal value HKD 1	0	0
Non-quoted shares in associated companies:		
The Swedish Club Academy		
750 shares nominal value SEK 100	11	11
Accumulated acquisition costs carried forward	**11**	**11**

The Club has a subsidiary company which, in accordance with the Swedish Annual Accounts Act 7:5, has not been consolidated since the subsidiary company is of lesser importance with regard to true and fair view requirements.

The Club's ownership of the associated company, The Swedish Club Academy is 50%.

Information about The Swedish Club Academy AB:

CIN: 556798-1435

Registered office: Gothenburg

Country: Sweden

Note 13. Quoted shares	2010	2009
Quoted shares at market value	60 828	43 929
	60 828	**43 929**

Acquisition costs of quoted shares 58 758 (2009 : 47 877)

Quoted shares are specified in the table below:

Name	Number	Acquisition cost	Accounted value
Carnegie Kapitalförvaltning - World Wide Fund	277 328	21 489	19 980
Enter Sverige	35 265	6 308	7 844
Kommuninvest i Sverige AB - Certifikat Världen	6 750 000	6 750	4 846
SSGA World Index Equity Fund	164 969	24 211	28 157
		58 758	60 828

Note 14. Bonds and other interest-bearing securities

2010	Nominal Value	Acquisition value	Market value	Accounted Value
Foreign governments	117 314	110 495	109 591	115 396
Other foreign emittants	91 700	94 956	96 649	90 844
Total quoted securities	209 014	205 452	206 240	206 240
Bond funds		24 787	25 382	25 382
		230 239	231 622	231 622

2009	Nominal Value	Acquisition value	Market value	Accounted Value
Foreign governments	82 838	82 558	82 503	82 503
Other foreign emittants	63 873	64 988	67 046	67 046
Total quoted securities	146 711	147 546	149 550	149 550
Bond funds		29 464	43 928	43 928
		177 010	**193 478**	193 478

Note 15. Technical provisions

	2010			2009		
Provision for claims outstanding	Gross	Reinsurers share	Net	Gross	Reinsurers share	Net
Opening balance, provision for reported claims	184 227	-73 585	110 642	256 994	-154 939	102 055
Opening balance, provision for incurred not reported (IBNR)	26 230	-2 190	24 040	25 900	-3 000	22 900
Balance brought forward	**210 457**	**-75 775**	**134 682**	**282 894**	**-157 939**	**124 955**
Claims costs occurred during the current year	89 418	-7 346	82 072	90 390	-11 300	79 090
Paid/transfered to insurance creditors or other creditors	-63 124	7 776	-55 348	-166 131	100 350	-65 781
Change in expected cost for claims occurred previous years (run-off result)	-8 060	4 366	-3 694	-607	-5 084	-5 691
Gains/losses on foreign exchange	-3 802	1 577	-2 225	3 911	-1 802	2 109
Balance carried forward	**224 889**	**-69 402**	**155 487**	**210 457**	**-75 775**	**134 682**
Closing balance, reported claims	195 099	-67 712	127 387	184 227	-73 585	110 642
Closing balance, provision for incurred not reported (IBNR)	29 790	-1 690	28 100	26 230	-2 190	24 040
Provision for unearned premiums						
Balance brought forward	**25 727**	**-6 165**	**19 562**	**27 109**	**-6 128**	**20 981**
Insurance contracts signed during the period	28 651	-3 285	25 366	25 727	-6 165	19 562
Premiums earned during the period	-25 727	6 165	-19 562	-27 109	6 128	-20 981
Balance carried forward	**28 651**	**-3 285**	**25 366**	**25 727**	**-6 165**	**19 562**

The provision is valued at the exchange rate on the balance day. The exchange rate difference which thus arises is reported under Investment income.
Provision for claims handling included in provision for claims outstanding amounts to 5 607 (2009: 5 607).
The provision for incurred and reported claims is reported including incoming reinsurance amounting to 838 (2009: 968).

Note 16. Receivables related to direct insurance operations	2010	2009
Members	24 700	21 720
Insurance brokers	9	16
Insurance companies	3 815	4 999
	28 524	**26 735**

Note 17. Tangible assets	2010	2009
Machinery and equipment		
Accumulated acquisition costs brought forward	2 841	2 987
Purchases	277	154
Sales	-226	-533
Revaluation of accumulated purchase prices	171	233
Accumulated acquisition costs carried forward	3 063	2 841
Accumulated depreciation brought forward	-1 874	-1 956
Reversed depreciation on tangible assets sold	223	472
Depreciation for the year	-244	-229
Revaluation of depreciation	-113	-160
Accumulated depreciation carried forward	-2 008	-1 874
	1 056	**968**

Depreciations are accounted for in the income statement under net operating expenses.

Note 18. Pensions and similar obligations	2010	2009
Provision for pensions	551	484
Provisions for deferred non-vested pension	1 699	1 638
	2 249	**2 122**

The pensions obligations comprise pensions plans that are regulated through collective agreements and national insurance laws. The obligations consist of both defined-contribution and defined-benefit plans. For defined-contribution plans, the pension cost comprises the premiums paid for securing the pension obligations in life insurance companies. Total paid premiums during the year was 1 339.

The associations pension plans for collective pensions agreements is guaranteed through insurance agreements. The pension plan for the employees has been assessed as a defined-benefit plan that covers several employers. The company has however done the assessment that "UFR 6 Pensionsplaner" that covers several employers is applicable also for the company's pension plan. The company lacks sufficient information in order to account in accordance with IAS 19, and presents therefore, in accordance with UFR 6, these pension plans as defined-contribution plans. The associations obligations concerning charges to defined-contribution plans has been presented as a cost in the profit and loss account as they are earned through that the employees performed services carried out during a period. Paid premiums to SPP Liv and FORA during the year was 752.

Employees born before 1956 have according to collective agreement the right to retire from the age of 62. The provision is based on anticipated future pension payments and includes assumptions regarding mortality, employee turnover, salary growth and price inflation. Pension payments during the year was 232.

NOTES

Note 19. Taxes	2010	2009
Tax on result for the year		
Current tax	-	-
Deffered tax[1)]	-611	656
	-611	**656**

[1)] *Tax rate 26.3%. Current years defferred tax is assignable to unrealised value changes in investment assets.*

Change in provision for deferred tax	2010	2009
Opening balance	297	953
Change recognised in income statement	611	-656
Closing balance	908	297

Change in provision for deferred tax recognised in untaxed reserves	2010	2009
Opening balance	34 061	29 229
Change recognised in untaxed reserves	7 620	4 832
Closing balance	41 681	34 061

Note 20. Liabilities related to direct insurance operations	2010	2009
Members	1 824	1 763
Insurance brokers	1 951	1 837
Insurance companies	3	3
	3 778	**3 603**

Note 21. Other liabilities	2010	2009
Supplier creditors	839	305
Other creditors	8 236	5 642
	9 075	**5 947**

Note 22. Expected settlement of assets and liabilities

About 40 per cent of claims outstanding is expected to be paid after more than 12 months in the future. Reinsurer proportion of claims outstanding will generally take somewhat longer time. Other balance items that are expected to be recovered after more than 12 months are 50 per cent of receivables and liabilities pertaining to other insurance companies. The risk of the Club becoming short of cash funds is small in the short run, as the entire investment portfolio can be converted to cash within a few days. For more information about liquidity risk, see note 2 and the cash flow statement.

Note 23. Memorandum items

The listed assets below, are held in a register for coverage of technical provisions. In case of insolvency the members have a priority right in the registered assets. The company has the right that in going concern add or delete assets in the register as long as the demand for coverage accordance with Swedish Insurance Act is fullfiled.

	2010	2009
Bonds state and municipality and other assets	141 899	104 845
Bonds other	115 751	101 840
Quoted shares	48 861	38 040
	306 510	**244 725**
Technical provisions, net	180 853	154 245
Surplus of registered assets	125 657	90 481
	306 510	**244 725**

Bank guarantees
In connection with commitments to other members of the International Group and to members of The Swedish Club, The Association has provided bank guarantees of USD 41.3 (2009 USD 31.7) million.

Note 24. Personnel

	2010	2009
Average number of employees:		
Sweden	67	68
Greece	13	14
Hong Kong	1	1
Japan	11	10
	92	**93**
Of which females	39	37
Females in management team	(20%)	(20%)
Salaries and payments:		
in Sweden		
Chairman of the Board	21	22
of which variable part	(8)	(8)
Other board members (20 persons)	169	161
of which variable part	(112)	(116)
Managing Director	293	254
Management team excluding the Managing Director (4 persons)	731	650
Other employees	4 208	3 974
in Greece	1 275	1 425
in Japan	125	117
	6 822	**6 603**

Social security costs:		
in Sweden	3 764	3 212
in Greece	197	285
in Japan	13	12
	3 974	**3 509**
whereof pension costs	2 225	1 797
management team (5)	(60)	(59)

Absence due to illness in Sweden as a percentage:		
Total absence due to illness of total worked time	**2.4**	**1.8**
whereof		
long-term absence due to illness	17.4	18.3
absence due to illness for men	0.9	0.7
absence due to illness for woman	1.5	1.1
employees - 29 years	-	-
employees 30 - 49 years	1.1	1.1
employees 50 - years	1.4	0.7

The Managing Director is employed according to a contract with two years' notice on the part of the Association. The heading Provision for pensions in note 18 includes the capital value of a pension undertaking towards earlier management staff amounting to 346 (2009: 322).

Remuneration to the Board has been paid according to decision of the annual general meeting. The distribution of the remuneration, between the Chairman of the Board and the other Board members, is decided by the annual general meeting. The variable part is based on attendance. Remuneration to the Managing Director, MD, is decided by the Chairman of the Board and renumeration to other members of the management team is decided by the MD. Remuneration to the MD and other members of the management consists of a basic salary, other benefits and pensions. There are no variable salary elements. For pensions obligations see note 18. No remuneration is paid to board members employed by the association.

Proposed appropriation of earnings

The Board of Directors proposes that the accumulated deficit **–8 254 TUSD** is to be carried forward.

The income statement and balance sheet will be submitted for adoption by the annual general meeting on **16 June 2011**.

The Board of Directors and Managing Director assure that the annual accounts have been prepared in accordance with generally accepted accounting practices for insurance companies and offer a true and fair representation of performance and financial position. The board of directors' report offers a true and fair overview of the company's operations, performance and financial position, while describing significant risks and uncertainties that the company face.

Auditors' report

Almost all of The Swedish Club´s income and the major part of the costs are in US dollar. According to Swedish law, however, the Club has to produce an annual report with the accounts in Swedish kronor. In order to make the information more accessible, the enclosed version of the statutory annual report has been produced with the accounts in US dollar. In certain other aspects too, the enclosed version differs from the official one.

To the AGM of Sveriges Ångfartygs Assurans Förening (The Swedish Club): CIN 557206-5265

We have audited the annual accounts, the accounting records and the administration of the Board of Directors and the Managing Director of Sveriges Ångfartygs Assurans Förening for the year 2010. These accounts and the administration of the company and the application of the Annual Accounts Act for Insurance Companies when preparing the annual accounts are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts are free of material misstatement.

An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director and significant estimates made by the Board of Directors and the Managing Director when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts.

As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the Managing Director. We also examined whether any Board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act for Insurance Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets be adopted, that the result be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

The Auditors' Statement in accordance with the Annual Accounts Act, paragraph 15, chapter 8.

The official annual report for The Swedish Club (Sveriges Ångfartygs Assurans Förening) for the 2010 business year has been drawn up in accordance with the Annual Accounts Act for Insurance Companies.

Gothenburg 31 March 2011

Roger Mattsson
Authorised Public Accountant

Gudbjörn Palsson
Authorised Public Accountant

Auditors

Auditors

Roger Mattsson	Authorised Public Accountant, KPMG, Gothenburg
Gudbjörn Palsson	Authorised Public Accountant, KPMG, Gothenburg

Deputy Auditors

Lars-Ola Jäxvik	Authorised Public Accountant, KPMG, Gothenburg
Mikael Ekberg	Authorised Public Accountant, KPMG, Gothenburg

Actuary

Christian Björck	Authorised Actuary, Stockholm

P&I policy year statement (unaudited)

At 20 February 2011. Analysis in USD thousands		2010/11	2009/10	2008/09
Calls and Premiums accounting year		85 280	78 742	76 840
Reinsurance premiums		-16 920	-17 321	-19 082
Investment income transferd from non-technical account		1 200	1 350	3 900
Claims paid accounting year 2008				-6 364
Claims paid accounting year 2009			-7 997	-8 372
Claims paid accounting year 2010		-6 215	-8 561	-5 517
Claims handling costs		-5 728	-5 230	-6 161
Reinsurers share paid accounting year 2008				-
Reinsurers share paid accounting year 2009			38	-
Reinsurers share paid accounting year 2010		1	-	-
Administrative expenses		-11 644	-9 824	-12 373
Technical balance available to meet claims	A	45 974	31 197	22 871
Net outstanding claims*				
Pool		11 546	8 698	1 552
Members claims		30 811	24 502	12 177
	B	42 357	33 200	13 729
Technical result insurance year	A-B	3 617	-2 003	9 142
Total investment income P&I**		9 333	10 948	-18 446
Investment income transferd to technical account		-1 200	-1 350	-3 900
	C	8 133	9 598	-22 346
Balance available to meet outstanding claims	**A-B+C**	**11 750**	**7 595**	**-13 204**

** All reserves for outstanding claims are uplifted to include IBNR.*
*** P&I bussiness part of investment income is accounted for in the policy year in which it arises.*
All figures are shown net of taxation.

- The Income statement and Balance Sheet included in the Financial statements are reported as per 31 December.
- As the policy year ends 20 February for P&I we have attached a Policy Year Statement together with Income and expenditure account synchronising with this period.
- The Policy Year Statement above shows the likely outcome of the open policy years at 20 February 2011.
- The Income and Expenditure account on the next page shows the estimated result for one accounting year ended 20 February regardless of policy year.
- Balance available to meet claims outstanding for all years is a calculated estimate of generated surplus from the P&I business. The balance available amounts to TUSD 119 614 whereof closed years TUSD 113 473.

P&I income and expenditure account (unaudited)

For the year ended 20 February. Analysis in USD thousands	2010/11	2009/10	2008/09
Calls and premiums	85 280	78 742	111 955
Reinsurance premiums	-16 920	-17 321	-20 306
Claims paid	-29 812	-92 011	-144 074
to Pool	-3 163	-8 434	-6 043
on own business	-26 650	-83 577	-138 031
Change in provision claims	-14 797	39 002	-26 424
to Pool	-2 839	1 152	-6 554
on own business	-11 958	37 850	-19 870
Reinsurance recoveries	9 768	56 859	114 808
from Pool	1 406	-20 970	29 641
Group	5 144	69 397	78 063
other reinsurers	3 218	8 432	7 104
Change in provision claims	-11 519	-48 006	20 261
from Pool	-1 041	9 204	-30 434
Group	-2 999	-54 987	48 380
other reinsurers	-7 479	-2 223	2 315
Claims handling costs	-5 728	-5 230	-6 161
Technical result	**16 272**	**12 035**	**50 059**
Investment income*	9 333	10 948	-18 446
Administrative expenses	-11 644	-9 824	-12 375
Result	**13 962**	**13 159**	**19 238**

** Investment income has been allocated to the different classes of business in accordance with a formula that has been consistently applied from year to year.*

Management Group

Lars Rhodin

Managing Director

Born: 1959 · **Years at The Swedish Club:** 25 · **In management group since:** 1997

Master of Law from University of Lund and Master of Business Administration from University of Gothenburg. Worked as a lawyer in private practice prior to joining The Swedish Club. Served at the Hong Kong office 1988–1991. Deputy Managing Director 2003–2008, prior to his appointment as Managing Director in July 2008. Member of the International Group of P&I Clubs' Committees and Working Groups and Det Norske Veritas (DNV). He also serves on the board of directors of the Swedish Sea Rescue Society.

Henric Gard

Director of Marketing & Business Development

Born: 1963 · **Years at The Swedish Club:** 3 · **In management group since:** 2008

Master of Law from Uppsala University. Broker and Assistant Vice President, Marsh Marine & Energy Department with secondments in both London and New York 1989–1993. Various management positions within Wills Sweden AB and Willis Ltd 1994–2008.

Lars A. Malm

Director of Risk & Operation

Born: 1969 · **Years at The Swedish Club:** 11 · **In management group since:** 2007

Master of Law from University of Gothenburg and Oslo. Came from the Swedish insurance company Skandia and joined The Swedish Club in 2000 as a Hull Claims Adjuster. In 2003 appointed Area Manager. Assumed the current role as Director of Risk & Operation in 2008.

Jan Rydenfelt

Director of Finance, IT & Reinsurance

Born: 1954 · **Years at The Swedish Club:** 12 · **In management group since:** 1999

Master of Arts in Economics, University of California, Santa Barbara and Bachelor of Business Administration from University of Lund. Assistant to the managing director of Länssparbanken Gothenburg. Next various positions within the financial sector, whereof the latest, before The Swedish Club, as property consultant at Catella, IKEA Group.

Helena Wallerius Dahlsten

Director of Human Resources & Legal

Born: 1955 · **Years at The Swedish Club:** 29 · **In management group since:** 2003

Master of Law from University of Lund and Gothenburg. 1982-2003 various positions in claims handling including Deputy Director of P&I Claims 1989-1997 and Deputy Director of Claims & Legal Support 1997-2003. 2003 onwards Director Human Resources & Legal.

Board of Directors

Lennart Simonsson
Chairman
Gothenburg, Sweden

Lars Rhodin
Managing Director
Gothenburg, Sweden

John Coustas
Deputy Chairman
Danaos Shipping Co. Ltd.
Piraeus, Greece

Khalid Hashim
Deputy Chairman
Precious Shipping Public Co. Ltd.
Bangkok, Thailand

Fred Cheng
Shinyo International Group Ltd.
Tokyo, Japan

Peter Claesson
Stena AB
Gothenburg, Sweden

Demetri Dragazis
Latsco London Ltd
London, United Kingdom

Rob Grool
Wallem Shipmanagement Ltd.
Hong Kong, The People's Republic of China

Gustaf Grönberg
Star Cruises Management Ltd.
Kuala Lumpur, Malaysia

Lars Höglund
Furetank Rederi AB
Donsö, Sweden

Kim Kyung Soo
IMC Corp.
Singapore, Singapore

Anders Källsson
Erik Thun AB
Lidköping, Sweden

Board of Directors

Andonis Lemos
Enesel S.A.
Athens, Greece

Diamantis Manos
Costamare Shipping Co. S.A.
Athens, Greece

Christiane E. Scola
Reederei "Nord" Klaus E. Oldendorff GmbH
Hamburg, Germany

Sumate Tanthuwanit
Regional Container Lines Co. Ltd.
Bangkok, Thailand

Suay Umut
Dünya Denizcilik ve Ticaret A.S.
Istanbul, Turkey

Elisabeth Rydén
Elected by the employees

Zhen Li
Sinotrans Shipping Ltd.
Beijing, The People's Republic of China

John P. Samartzis
J P Samartzis Maritime Enterprises S.A.
Piraeus, Greece

Sun Jia Kang
Cosco Container Lines Co. Ltd.
Shanghai, The People's Republic of China

Tuğrul Tokgöz
Geden Lines
Istanbul, Turkey

Michael Vinnen
F.A Vinnen & Co.
Bremen, Germany

Fritiof Granberg
Elected by the employees

Definitions & Glossary

Actual result for the year: change in solvency capital during the year.

AER, Average expense ratio: all members of the International Group of P&I Clubs are subject to the EU Commission requirement to report the AER for P&I business. This is a measure of cost-effectiveness. AER is measured in US dollar and calculated for the latest five-year period by relating operating costs, excluding claim handling costs, connected with P&I activity to premiums plus investment income concerning P&I activity.

Claims frequency: The observed relationship during a specific period between the number of claims arising within a certain category of insurance and the number of insurance policies within the same category. Does not include major claims.

Combined ratio: claims for own account and net operating expenses in the insurance business, as a percentage of earned premium f.o.a..

CTL, Constructive Total Loss: is when the vessel is beyond any reasonable cost for repairs. The damage or damages to the ship will cost more to repair than the insured value.

Direct yield: direct yield on investments (operating surplus from buildings and land, dividends received and interest income) as a percentage of the average fair value of investments and cash/bank balances.

Expense ratio: net operating expenses in the insurance business, as a percentage of earned premium f.o.a..

FD&D, Freight, Demurrage & Defence: a cover that provides for advice and meets legal costs incurred in pursuing or defending claims covered by this class of insurance pursuant to the Rules. There is no cover under FD&D, however, for the claim itself.

For own account, F.o.a: net of reinsurance.

H&M, Hull & Machinery: a cover that protects the insured against damage to, or loss of, the vessel or machinery.

IBNR, Incurred but not reported: a term used to describe an estimation of the claims which may have occurred, but of which the Club is not yet aware, or is only partially aware and for which provisions must be made when calculating the Club's liabilities.

International Group of P&I Clubs: this organisation arranges collective insurance and reinsurance for P&I clubs and represents the views of the P&I community.

Investment income (or return): sum total of direct return and realised and unrealised changes in value expressed as a percentage of the fair value of investment assets measured in USD. The monthly time weighted method has been used to calculate the return of active investments. The return has been calculated using the calculation method used internally by the Club for the evaluation of asset management.

Marine: main insurance class which includes Hull & Machinery (H&M), Increased Value (IV), Hull Interest, War and Loss of Hire insurance (LoH). För mer information, se Insurance Products på www.swedishclub.com

MRM, Maritime Resource Management: is a training course intended for seagoing staff, pilots and shore-based personnel. The objective is to minimise casualties and losses caused by human and organisational errors. The Swedish Club Academy AB is the owner of the MRM course and has licensed a large number of training providers world-wide for the purpose of providing training. For more information see: www.swedishclub.com/academy

Overspill:	claims exceeding the International Group of P&I Clubs' reinsurance are pooled amongst the members up to the overall limit set by the P&I Rules. The estimate is currently USD 2.4 billion in excess of reinsurance.
P&I, Protection & Indemnity:	insurance that indemnifies or covers the insured in respect of the discharge of legal liabilities incurred during the operation or employment of the vessel.
Pool:	the P&I clubs in the International Group share claims made in excess of the retention of USD 7 million. In the excess of the pool limit, the Group has jointly purchased Excess of Loss reinsurance.
Regulatory capital base:	equity and untaxed reserves, minus intangible assets in the balance sheet. The regulatory capital base is also shown including half of the non-utilised levying right, up to fifty per cent of the capital base, which after approved application by the supervisory authority can be allowed for in the calculation.
Regulatory capital base divided by solvency margin:	regulatory Capital base in relation to Regulatory solvency margin (for the year 2006 and earlier the regulatory capital base was reported including levying right).
Regulatory solvency margin:	calculated in accordance with the regulations of the Swedish Financial Supervisory Authority and the Swedish Insurance Business Act.
Retention:	the highest insured or claims amount relating to the same risk that an insurer retains for its own account, without reinsurance.
Solvency ratio, claims:	solvency capital, as a percentage of provision for claims outstanding f.o.a..
Solvency ratio, premiums:	solvency capital, as a percentage of earned premium f.o.a..
Solvency capital:	equity less deferred tax assets plus untaxed reserves and deferred tax liability.
Total return:	direct yield on investments (operating surplus from buildings and land, dividends received and interest income), unrealised profits and losses and realization result in the sale of investment assets, in relation to the average market value of the investments and cash/bank.
Underwriting:	includes the risk assessment and pricing conducted when insurance contracts are drawn up. In accounting contexts, the term is also used more broadly to designate the operations of an insurance company that do not have the character of asset management.


Three words to encapsulate better service

After 138 years as a mutual company we have a great deal of corporate culture to fall back on, but also to take into the future. Today we have summed it up in three core values: PROACTIVE, RELIABLE and COMMITTED. This is what defines our company, how we act and what we encourage in our employees.

Proactive

- We are proactive in our approach
- We respond in a forward thinking manner and focus on cost efficient solutions

Reliable

- We are reliable in our values
- Through honesty and fair treatment we gain confidence and secure continuity

Committed

- We are committed in everything we do
- We build and develop relationships of mutual benefit
- Our service is based on respect and professionalism

But it takes more than three words to create a value-system. Applying this in our everyday work is an on-going process, with the aim of providing all staff with an insight into how the words should be understood and how they can be translated into their assignments.

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