MANAGEMENT REPORT

2010

Celebrating 150 years of North

150

NORTH

SERVICE, STRENGTH, QUALITY

Photography front cover: 'Newcastle Gateshead Millennium Bridge at night'.

Registered in England. Company registration number: 505456
VAT registration number: 828 5711 10

ANNUAL HIGHLIGHTS

- 'A' rating from Standard & Poor's
- Combined ratio of 94.8%
- Free reserves at US$240.3 million
- Net assets of US$706.7 million
- Total entered tonnage 110 million GT

FINANCIAL SUMMARY

FIVE YEAR COMBINED SUMMARY

Amount in US$ million; All classes

Income and expenditure

	2009/10	2008/09	2007/8	2006/7	2005/6
Premium	285.1	255.1	213.0	193.5	177.1
Investment income less tax	4.6	(13.5)	38.5	54.8	30.1
Exchange gain / (loss)	14.4	(27.8)	5.1	11.2	(2.0)
Reinsurance costs	(47.6)	(44.2)	(34.5)	(28.6)	(24.0)
Net claims incurred	(190.5)	(142.2)	(162.1)	(179.7)	(130.9)
Expenses	(36.8)	(36.3)	(30.2)	(29.0)	(24.3)
Increase / (decrease) in free reserve	29.2	(8.9)	29.8	22.2	26.0

Balance sheet

	Feb-10	Feb-09	Feb-08	Feb-07	Feb-06
Investments	245.5	227.3	570.4	517.5	433.8
Cash and cash equivalents	425.8	413.4	79.9	85.5	96.2
Other assets	51.6	45.6	50.0	48.3	38.1
	722.9	686.3	700.3	651.3	568.1
Creditors	(16.2)	(22.8)	(21.5)	(17.3)	(27.0)
Net assets	706.7	663.5	678.8	634.0	541.1
Net outstanding claims	(466.4)	(452.4)	(458.8)	(443.8)	(373.1)
Free reserves	**240.3**	**211.1**	**220.0**	**190.2**	**168.0**

CHAIRMAN'S STATEMENT

As we celebrate North's 150th anniversary year, we reflect on our central role in the evolution of the international P&I industry; on our substantial growth and achievements; on our financial strength; and on the unique 'spirit' of North that has brought us to where we are today.

That 'spirit' delivers quality, service, friendliness and a willingness to assist that is associated by many with our Newcastle roots, but in no way do we restrict it geographically. We have successfully exported all of those values to our overseas offices and we take them with us across the world, wherever and whenever North does business.

Never have those values been so vital for us as a Club than in the past two years, as we and our Members have faced the fallout of global economic meltdown. As the world's economies appear to be picking up, albeit slowly, it is certainly no accident that North has emerged from the tumult stronger than ever, with record entered tonnage at the 20 February renewal and the highest free reserve position in the history of the Club.

On occasions such as an anniversary, it is customary to emphasise that an organisation is looking forward, not just backwards. But it's important to take stock, to remember our roots and, in terms of the unprecedented challenges of the past two years, it's important to reflect on the successful 'recipe' that enabled us to ride out the crisis.

We are proud to remain headquartered in Newcastle, the birthplace of P&I, while having a truly global reach as one of the world's leading P&I Clubs.

North had another successful renewal, and we were pleased to welcome more high-quality Members and gain further support from existing Members and old friends.

Our total entered owned tonnage increased by over 20% to a record level of over 90 million GT; chartered tonnage brought our total entered tonnage to about 110 million GT at renewal.

We implemented a modest P&I premium increase of 5% at renewal and are grateful to our Membership for their support in this regard. We can also report that, for the 19th year in succession, North made no unbudgeted supplementary calls on its Members.

We opened the 2010 policy year financially stronger than ever before, with a record free reserve position of US$240.3 million, compared with US$211.1 million at the same point in 2009. Our cautious investment strategy has served us well. We took steps during 2007 and 2008 to de-risk our investment portfolio and, as a consequence, we were able to limit the downside risk in very difficult conditions.

We maintained this defensive approach during 2009 and our investment committee continues to monitor the markets closely. In short, we remain vigilant.

Alongside our prudent investment strategy, we continue to focus on our policy of disciplined underwriting. As I pointed out last year, in such volatile times, P&I Clubs can no longer rely on investment income to subsidise losses on the claims side. North's emphasis on technical underwriting balance and our determination to achieve break-even underwriting is crucial and last year we delivered a satisfying combined ratio of 94.8%.

As trustees of our Members' money, we will remain vigilant and cautious in our approach to the markets.

North's strong financial performance was underlined and recognised when Standard & Poor's confirmed our 'A' stable rating for the sixth consecutive year, an important accolade for the Club.

On the downside, North experienced an unusual Pool claims spike, with five such claims in the last policy year. This unusual occurrence followed years of North being a net contributor to the Pooling mechanism. This is an unwelcome 'blip' in our excellent record, but it shows the random nature of claims at this level – other Clubs have also experienced such unexpected peaks in recent years.

CHAIRMAN'S STATEMENT (CONTINUED)

To put things in context, this occurred in a year which saw International Group Pool claims rising overall. Our long-term Pool record remains satisfactory.

The individual retention for IG Clubs increased at 20 February 2010 so that each Club now retains the first US$8 million of each claim before it is eligible for Pooling. As a Club, we supported this increase and we will continue to support gradual incremental increases, which are financially beneficial or deemed necessary by the International Group.

The human factor

What remains starkly clear is that most of the claims, large and small, that we handle on behalf of Members have the same causal factor at their root – human error. The levels of competence and standards on board ship continue to cause concern and, even in times of recession, there still appears to be a shortage of qualified, properly experienced seafarers.

Many industry commentators expressed the hope that at least one positive outcome of the global slowdown would be a fall-off in claims, as shipping worked at a less pressured, frantic pace. We do see evidence of a slight fall-off in attritional claims but, while we would hope that this was the start of a trend, the underlying causes of most accidents have not gone away.

A shortage of seafarers leads to the tendency to promote inexperienced crew too quickly, with obvious implications for safety on board. It is all too likely that these problems will re-emerge with a vengeance as the world economy picks up once again.

There is danger beyond the immediate shortage of seafarers, too; where will we find the people we need, with vital seagoing experience, to step into the jobs ashore in future years? Where will we find our surveyors, our superintendents, our maritime lawyers, our harbour masters, our pilots or even our insurers?

The worry is that the next generation of seafarers will suffer because they could be learning from people who simply don't have the requisite experience to pass on.

Training

North continues to emphasise the need for strong, continuous training for all seafarers. We are alarmed to see, on occasions, that competence and standards on ships continue to be poor. We are concerned that, as we near the hoped-for end of recession, the problems will escalate in parallel with increased demand for personnel.

The knock-on effect – lack of experience coming ashore – is perhaps reflected in the fact that some Members have increased the number of technical and operational enquiries made to the Club as they struggle to retain the requisite level of experience or expertise in their own office.

Add to this the constant barrage of new regulation – which often has massive contradictions as ships head from one region to another – and it is hardly surprising that North's in-house expertise is in increasing demand.

Piracy

Piracy has now reached epidemic proportions and this is of enormous concern to us all in the shipping industry. It also raises a number of difficult issues.

Can the military forces really prevent piracy attacks when the criminals' operating area is so huge, and continues to expand? It seems that the success of pirate attacks off Somalia is encouraging piracy in other areas, perhaps because military forces have not taken effective action to nip this problem in the bud.

Should vessels carry armed guards? North recognises the increasing pressure that owners feel to make use of armed security personnel; but there are major concerns. This is a largely unregulated industry, often attracting ex-service personnel, some of whom probably have limited knowledge of ships.

As a Club, we are receiving an increasing number of piracy-related enquiries from Members, and we continue to offer our advice and support. Our advice is that if owners do choose to arm their ships, they should take enormous care in sourcing security staff, and ensure that they are indeed competent for the task.

In general terms, we would urge more concerted action by the world's military forces to counter this direct threat to global trade and vital supply chains. Alongside this, there should be clearer, consistent penalties for pirates who are caught. We welcome the fast-tracking of trials in Kenya.

Criminalisation of seafarers

Much has been written, and said, about the ongoing criminalisation of seafarers and certainly this is an issue on which we must all speak out.

Often when seafarers are charged or accused of criminal actions, governments seem reluctant to 'interfere' on their behalf in the criminal justice system of another nation state. But governments must speak out for justice and must take more responsibility for their seafarers. Innocent people can face years languishing in prison, often in very poor conditions, before even facing trial – systems need to be put in place to ensure that bail can be provided. The ILO/IMO guidelines are simply not effective in picking up major abuses by flag states. We need to promote a better international standard of treatment for seafarers involved in a maritime casualty.

Seafarers present such an easy target and scapegoats for a country's own failures, whether it is failure to implement an effective traffic separation scheme or failure to provide proper facilities for responding to pollution.

WE ARE PROUD TO REMAIN HEADQUARTERED IN NEWCASTLE, THE BIRTHPLACE OF P&I, WHILE HAVING A TRULY GLOBAL REACH AS ONE OF THE WORLD'S LEADING P&I CLUBS.

Albert Engelsman

The officer on the bridge is at the sharp end of an industry that so often fails him. He may be working long hours, suffering from fatigue, and burdened with paperwork. He or she can often unwittingly find themselves at the centre of a highly politicised dispute.

Meanwhile, the regulatory burden on ship owners, operators and officers continues to increase. Of particular concern is the proliferation of uncoordinated regional regulation faced by our seafarers. We see many states developing their own legislation, often without a proper understanding of the issues that are involved.

Ballast water regulations and rules applying to fuel types and emissions are two classic examples where, unless international solutions are agreed, ship owners, crews and insurers could find themselves technically unable to comply with the demands of many separate and varying regimes.

In such a situation, we can only expect to see increasing cases of ship owners and crew being prosecuted for regulatory violations simply because it is not practical for them to work out every last detail of an individual state's requirements.

Facing such pressures, how can we expect seafarers to focus on the most important priority – that of safely operating their vessels? We could reach the point where accidents happen because the crew are so busy reading the small print that they forget the basic navigational disciplines.

P&I Clubs, the International Group, Members, authorities and the shipping industry as a whole must work together to defend our industry against this 'invasion' of unhelpful, unworkable and confusing regulation.

International Group

Shipping provides the infrastructure which allows the world to trade – a basic fact which warrants improved publicity.

We need to remind people what the Clubs do and why our role is important in assisting the shipping industry.

On a cost-effective basis, the mutual, not-for-profit P&I Clubs offer ship owners the high levels of cover that are increasingly being sought in response to new legislation and political demands.

P&I Clubs are efficient in handling and processing claims and, without the countless guarantees that the P&I Clubs put up, world trade would simply grind to a halt.

We don't always explain as well as we should the unique advantages of the International Group and the Pooling system which underpins the world's shipping industry. The International Group Excess of Loss Contract is the largest marine reinsurance contract in the world, and the collective ability of the Clubs to purchase this protection is an indispensible feature of the International Group system.

We must better inform politicians and other decision-makers about the important role of the International Group in shipping and the vital role the Clubs play in enabling our Members to facilitate global trade.

Looking ahead

At North we are matching growth of our entered fleet with investment in our personnel, premises and systems.

Our head office on the Quayside in Newcastle is being totally refurbished and extended, to give us much-needed room for expansion. In December 2009, in a well-planned operation, our entire head office staff moved across the River Tyne to our temporary offices at Baltic Place. We look forward to moving 'back home' in 2011. Meanwhile, we have also expanded our Singapore office, and we plan to open an office in Tokyo later this year.

We have also embarked on a business efficiency review, which will take a detailed look at all of North's processes and ways of working and includes the design of a new IT system to match our needs exactly.

This has been an excellent year for our Club, which is now firmly established as one of the major international players.

We have chosen a variety of ways to celebrate our 150th anniversary with Members, colleagues and friends. Receptions are being held in Newcastle, and a number of other shipping centres around the world.

We have set up a 150 Years Charitable Fund in support of the Sailors' Society, the Royal National Lifeboat Institution, and a local community-based charity.

We have published a splendidly illustrated book in which author Nigel Watson charts the creation, development and expansion of North from its inception in 1860 – a fascinating tale told against the background of key developments in the British and worldwide shipping industry.

We look forward to meeting Members and friends, old and new, and celebrating together!

In conclusion, once again I would like to express my thanks to all of our Members for their continued support; to my fellow Directors for their consistent focus on North's affairs; to our management team for expertly guiding North through some tumultuous times; and to our professional and dedicated teams in all of North's offices, who deliver such a consistently high-quality service.

Albert Engelsman
Chairman
July 2010

MANAGING DIRECTORS' STATEMENT

A willing determination to listen to our Members, to respond swiftly and with flexibility to their needs; all of this lies at the heart of North's philosophy and progress.

As a Club that is growing in stature year on year, we understand that communication in both directions, must be at the centre of everything we do. We offer our Members advice and information on specific issues, more general issues, ways to improve quality and ways to avoid unnecessary claims. It is also important that our members must have their say too. We place great emphasis on listening carefully and regularly to our Members, providing the services and support that they need.

Quality, service, strength and reliability remain the common threads throughout. North's reputation has been built on these virtues and it is evident that the formula works. At the 20 February 2010 renewal, we reached a record entered tonnage of approximately 110 million GT, and we have seen further growth since then.

While we continue to emphasise quality, not quantity, we have a clear and focused target to increase the size of the Club, recognising that North's Members can benefit from the resulting economies of scale as well as from the lower volatility that comes from a larger book of business.

Growth of our entered fleet is being matched by investment in personnel, premises and systems. Our head office on Newcastle's historic Quayside is being totally refurbished and extended, and we look forward to returning 'home' from our temporary premises next year. We have also expanded our overseas offices, and we plan to open an office in Tokyo later this year.

We continue to recruit and train the very best people – North provides a thriving and challenging professional environment for our personnel, which in turn helps us to attract and retain the high-quality staff we need.

Meanwhile, we have further increased our focus on loss prevention; we believe that our increasingly individual, Member-targeted approach is vital in reducing claims.

North is in excellent shape. We are firmly positioned as one of the world's top P&I Clubs and our continued focus on cautious investment and disciplined underwriting has paid dividends. After the financial turmoil of 2008 and 2009, we have emerged with a stronger free reserve than ever before. Last year we achieved a combined ratio of 94.8% in the 2009/2010 financial year and made no unbudgeted supplementary calls on our Members.

We were delighted to take up the reins as Joint Managing Directors of North last September. It is a privilege to be leading a Club with a solid reputation for quality and service, with solid foundations in place for further expansion.

Our strategy and aims remain broadly the same, based on our recent strategic review which identified three key aims for North:

- Maintain our financial and service strength;
- Expand our product range; and
- Increase owned tonnage.

We have made significant progress in each of these areas and continue to move forward.

WE ARE FIRMLY POSITIONED AS ONE OF THE WORLD'S TOP P&I CLUBS AND OUR CONTINUED FOCUS ON CAUTIOUS INVESTMENT AND DISCIPLINED UNDERWRITING HAS PAID DIVIDENDS.

Alan Wilson

In a new challenge, we have also embarked on a major business efficiency review, which will look in detail at all of North's processes and ways of working. This review and refinement of all our procedures and systems will feed into our decisions regarding a bespoke IT system which is being designed to meet our needs. We are challenging the way we operate, in order to ensure that we are always evolving to meet the needs of our Members'.

The entire shipping world has faced unprecedented challenges in the recent past. North has emerged stronger than ever, with the expertise and resources to support our Members as they deal with the fallout of economic downturn.

The Board is responsible to the Financial Services Authority (FSA) for ensuring compliance with the Association's UK regulatory obligations. The Board attaches great importance to its regulatory responsibilities and is committed to dealing with the regulator in an open, cooperative and transparent manner. In the Autumn of 2009 the FSA conducted an ARROW Risk Review of the Association which included private meetings with members of the Board and executive management.

The Association is currently involved in the process to move to the new European regulatory regime known as Solvency II which will fundamentally transform the capital adequacy and risk management regime for the entire European insurance industry. The requirements for delivering and demonstrating the standards of risk management and governance are challenging and significant effort has been devoted to ensuring that the Association will be fully compliant with the Directive requirements.

The central elements of the Solvency II regime include:

- Demonstrating adequate Financial Resources (Pillar 1): applies to all firms and considers key quantitative requirements, including own funds, technical provisions and calculating Solvency II capital requirements (the Solvency Capital Requirement -SCR, and Minimum Capital Requirement -MCR) either through the European standard formula approach or through an approved full or partial internal model.
- Demonstrating an adequate System of Governance (Pillar 2): including effective risk management system and prospective risk identification through the Own Risk and Solvency Assessment (ORSA).
- Supervisory Review Process: the overall process conducted by the supervisory authority (FSA) in reviewing insurance and reinsurance undertakings, ensuring compliance with the Directive requirements and identifying those with financial and/or organisational weaknesses susceptible to producing higher risks to policyholders.
- Public Disclosure and Regulatory Reporting Requirements (Pillar 3).

Without risk, there can be no progress and unless risk is managed effectively by the Association it cannot maximise the opportunities available to it and minimise its threats. Risk is all about uncertainty, or more importantly, the effect of uncertainty on the achievement of the Association's objectives. We aim to mitigate, as much as necessary, any uncertainty that could interfere with the realisation of the Association's objectives. Risk Management is at the heart of North's business, overseen by the Board of Directors with operational oversight from the Audit Committee, Enterprise Risk management Committee and executive management.

As we mark our 150th anniversary this year, we look forward to meeting Members and friends, old and new, at our different celebrations. There will, no doubt, be plenty of reminiscing – but also plenty of opportunity to look ahead which we can do with great confidence.

Finally, we would like to thank all of our Members and staff for their support – during the recent challenging times and in our own first few months at the helm of this great Club.

BUSINESS & OPERATIONAL REVIEW

FINANCIAL POSITION

After seeing North's finances tested during the year to February 2009, as we dealt with global economic turmoil, extremely volatile investment markets and increased claims activity, the financial year to February 2010 was in comparison financially uneventful.

North's free reserves increased by US$29.2 million, from US$211.1 million in 2009 to a record US$240.3 million in 2010.

The underwriting performance of the Club has been strong, with an underwriting surplus of US$11.2 million and a combined ratio of 94.8%. Investment return and foreign exchange movements added US$18.0 million to the surplus net of tax.

North's Directors took steps during 2007 and 2008 to de-risk our investment portfolio and, as a consequence, were able to limit downside risk in very difficult circumstances. The defensive approach continued during 2009 and as a result we delivered on-budget returns which appropriately matched our risk appetite and preserved capital.

The P&I Class portfolio produced +2.10% against a benchmark of +1.75% from our mix of primarily government bonds and money market funds, with some minor exposure to credit and absolute return funds.

Despite the rally in risk assets over the past year, our view remains that there really is little to be bullish about in terms of the performance of the Western economy now or in the future as the enormous monetary and fiscal generosity is unwound. North has actively stood on the sideline of the equity market, wary of the volatility in which participants are embroiled. De-leveraging cycles take years to play out, even with massive doses of government intervention.

History indicates that the most likely outcome of the recent post-bubble credit collapses is that there will be a requirement for ongoing government support – even then, we are likely to endure five to seven years of economic stagnation, which will involve periods of growth followed by periods of contraction. The constant theme is one of volatility.

Our Investment Committee, consisting of Member Directors and investment consultants, continues to monitor the situation with frequent regularity. As trustees of our Members' money, we will remain vigilant.

We are pleased that the credit rating agency Standard and Poor's reaffirmed our 'A' stable rating in December 2009.

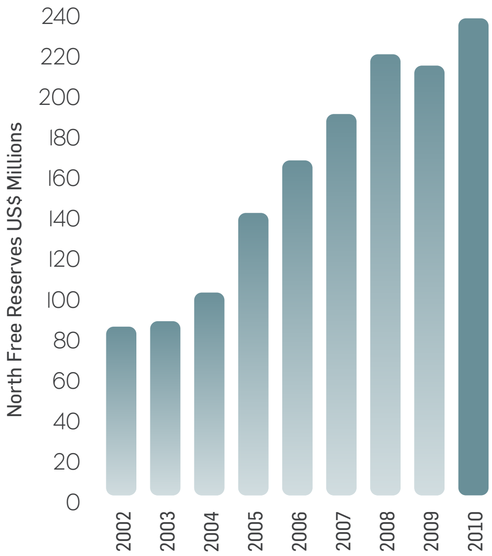
We focus our attentions on correctly pricing risk at the outset – we do not expect to have to rely on unbudgeted supplementary calls, particularly in these difficult times for ship owners, whether they should be neccessary as a result of investment losses or underwriting deficits.

Achieving a technical underwriting balance has always been and remains one of our fundamental targets and we continue to operate with the five key financial principles that have served us well and are central to our policies:

- Prudent and cautious underwriting;
- Careful and conservative claims management and reserving;
- Low-risk investment strategy, based on capital preservation;
- Comprehensive and highly secure reinsurance; and
- Close monitoring of management expenses.

REINSURANCE

An efficient and cost-effective reinsurance programme is a key component of North's financial strategy, reducing extreme volatility and enabling a prudent approach to financial planning. North is committed to disciplined underwriting and our reinsurance programme



will not be used to subsidise this principle. The Club's reinsurance structure comprises a number of components:

Retention reinsurance

The first part of North's retention reinsurance programme deals with poolable P&I claims falling below the International Group retention. North's strategy is increasingly to absorb more risk, whilst working with our reinsurance partners to reduce volatility. For a number of years, the Club has worked closely with Swiss Re to develop and implement a reinsurance product which recognises North's inherently conservative financial approach whilst also reducing excessive volatility for the Club. This programme remains in place; however, we continually review the structure and value of our reinsurance programme.

Non Poolable Reinsurance

The second aspect of the Club's retained reinsurance programme is in respect of those claims that do not fall within the International Group Pool and Excess of Loss Contract. These include charterers' P&I claims which are now all reinsured by the Club outside the International Group reinsurance programme. Additionally, our extensive non poolable and additional covers are reinsured by this programme, which can now offer limits of cover up to US$750 million. This facility is an important part of the Club's key strategic objective of increasing the marine insurance-related product range available to our Membership. The programme has been expanded and now includes offshore liabilities cover, reflecting our strategy of prudently expanding our range of products.

International Group Pool

The individual retention for Clubs increased at 20 February 2010 so that each Club now retains the first US$8 million of each claim, before it is eligible to enter the Pooling system. North supported the increase in retention and will continue to support gradual incremental increases, which are financially beneficial or deemed necessary by the International Group. The Pool extends to US$50 million, with claims now being adjusted throughout the Pool in accordance with a formula which reflects each individual Club's premium, tonnage and Pool claims performance.

Regrettably, the 2009/2010 policy year saw more Pool claims than were reported in 2008/2009. At 20 February 2010 there were 18 Pool claims reported, with a total gross value of US$382 million. North experienced five Pool claims – the largest number of Pool claims in one year in our history, demonstrating clearly the volatile and unpredictable nature of claims at this level. North had for many years previously been a substantial net contributor to the Pool with a significant credit balance. The total gross value of the five claims is currently estimated at approximately US$96 million and we hope this figure will reduce as the claims proceed to settlement.

International Group Excess of Loss Contract

Once again there have been no major changes to the structure of the International Group Excess of Loss Reinsurance Contract this year. The programme continues to operate with three layers, namely the first two layers of US$500 million each (operating in excess of the International Group Pool of US$50 million) and a third layer of US$1 billion. In addition, the International Group has purchased a 24-month collective overspill policy, providing for a layer of US$1 billion, excess of the underlying US$2.05 billion.

There was a modest increase in the total premium payable to the first US$500 million layer of the Excess of Loss Contract this year. However, as a result of there being no increases to the other layers of the contract and by virtue of increases in the total International Group tonnage, the overall rates charged to Club Members this year were reduced.

Individual ship type rates were adjusted once again to reflect the relevant performance and exposure and to ensure fairness between the different ship types. This resulted in a slight increase in reinsurance costs for dry cargo ships, a significant reduction for tankers and a modest reduction for passenger ships.

The International Group Excess of Loss Contract is the largest marine reinsurance contract in the world, and the collective ability of the Clubs to purchase this protection is an indispensible feature of the International Group system.

Hydra

The reinsurance arrangements that the International Group has with Hydra continue to offer valuable protection to the Group and its members. There were no changes to the arrangements at 20 February 2010, with Hydra still reinsuring the International Group Pool between US$30 million and US$50 million, as well as the Group's 25% coinsurance of the first layer of the General Excess of Loss Contract. Hydra is an important vehicle which affords the International Group the ability to reduce volatility and to cost effectively retain more risk.

BUSINESS & OPERATIONAL REVIEW (CONTINUED)

MEMBERSHIP

North's total entered tonnage reached a new record at the 20 February 2010 renewal, increasing to reach 110 million GT. This included an increase in owned tonnage, from 75 million GT in 2009 to 90 million GT in 2010. Since renewal, tonnage has continued to increase.

We continue to attract high-quality tonnage from prestigious owners from around the world, including Belgium, Canada, China, Denmark, Greece, Singapore and the United Kingdom. Entered tonnage continues to evolve in line with our development strategy.

Present geographical spread of business by GT (by place of management):

Europe	40%
Far East	26%
Middle East	14%
Scandinavia	4%
Americas	10%
Others	6%

Bulk carriers, tankers and container ships account for more than 90% of the total Membership by ship type.

Ship Type by GT:

Bulk carriers	30%
Tankers	36%
Container ships	25%
Gas carriers	3%
Other ship types	6%

INDUSTRY ISSUES

Many shipping professionals around the world, with decades of experience, will look back on 2009 as the toughest year they have seen in their entire careers.

The global economy and, in parallel, the shipping industry, went into freefall at the end of 2008; the freefall picked up speed in the early months of 2009, and the consequences, in terms of lay-ups, losses, cancelled newbuilding orders, charter disputes and bankruptcies, were clear to see.

Now there are indeed signs of recovery, albeit a patchy and mostly fragile one.

Against this background, North continues to act as a vital 'extension to our Members' offices', offering much-needed advice, information and support. We have renewed our emphasis on loss prevention and risk management, as we seek to help Members avoid costly mistakes and accidents.

Regional regulation

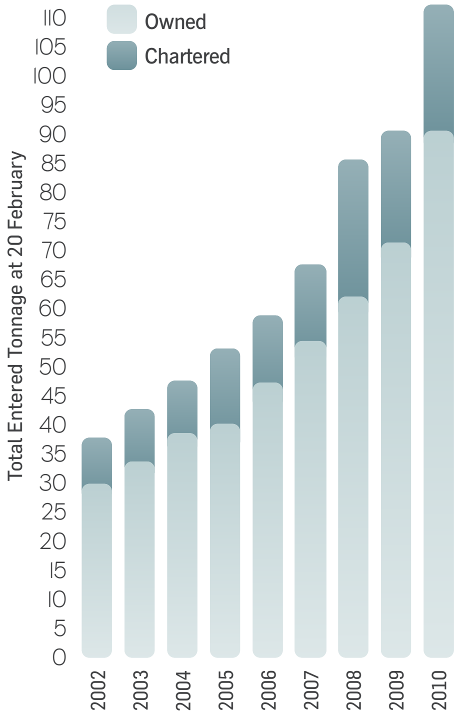
The increasing regulatory burden on ship owners, operators and officers is one that has been highlighted greatly in recent years. Of growing concern is the proliferation of uncoordinated, regional regulation now faced by our seafarers.

The view of the International Group of P&I Clubs (IG), and of industry as a whole, is that regulation should, so far as possible, be agreed on an international basis. The IG has actively supported global solutions to regulatory and compensation issues, even though these may be imposing a greater financial burden on shipping, on the basis that a global solution is preferable to individual states or groups of states taking their own action unilaterally.

Despite this, we are seeing many states developing their own legislation, often without a full understanding of the issues involved. Ballast water regulations are a case in point. Unless an international solution is agreed, we will reach the situation where one state will require ships to carry physical ballast water treatment equipment on board; a second will require chemical treatments; but a third will impose a ban on the use of such chemicals. The nature of treatment required by one state may actually put an owner in breach of the requirements of another; and there is a limit to the number of different systems that can be operated on board one vessel.

The lack of coordination between states means legislative solutions to issues are frequently at variance. The immediate consequences of this range from an increased administrative burden on ship owners, ship's crews and their insurers, to a technical inability to comply with all of the separate requirements.

Ship's crews are already under significant operational and administrative pressure.



Further demands will almost certainly have the effect of distracting crews from their key functions of safely operating vessels; the very regulations that are intended to avoid incidents could thus end up to be a contributing factor in causing them.

Add to this the fact that some states are prepared to hold ship owners to ransom over non-compliance issues, and we clearly have an escalating problem. Of course ship owners will strive to meet the demands of any reasonable legislation but there is a lack of due process in some countries, and some legislation is very punitive – and not transparent.

As a Club, we will continue to work with our Members, authorities, the International Group and the wider shipping community to highlight and tackle this disturbing trend.

P&I CLAIMS

The total number of P&I claims increased in the 2009 policy year at a much slower rate than the growth of North's entered tonnage, possibly reflecting the much hoped-for reduction in claims due to the economic slowdown.

There were retained claims of US$215.97 million (6,711 claims) in 2009, compared to US$219.51 million (6,339 claims) in 2008. Overall, the average value of claims was US$32,181, down from US$34,629, despite the fact that there was an unusually high number of Pool claims in 2009/2010 compared to 2008/2009. In terms of numbers of claims, tankers (27.6%), containerships (24.4%) and bulk carriers (24.1%), represented the three biggest groups.

After many years as a net contributor to the International Group Pool, North suffered an unexpected spike in Pool claims, with five separate claims exceeding the Club's retention at US$7 million in 2009/2010 compared with two in 2008/2009. Such a spike illustrates the random nature of these very large incidents, which generally tend to be admiralty-related.

With shipping markets showing signs of recovery and busier times expected ahead, we cannot necessarily predict a benign year in front of us.

The issue of seafarer shortages and of poor quality sea staff continues to be a major worry. There are significant concerns that in some cases, crews today appear to be less well trained, less experienced and incompetent. We have recently seen a number of large incidents where incompetence/negligence has led to disaster. Most of the claims, large and small, that we handle on behalf of Members, have the same causal factor at their root – human error.

Improved training, more respect for seafaring as a career, a more positive image for the maritime sector – are just some of the issues which need to be addressed if the industry is to attract better qualified young people to a career at sea, to retain them, and then to see them come ashore to work in the vital 'support' industries as owners' office staff, surveyors, lawyers, insurers, etc.

Despite the recession, there is certainly no oversupply of experienced crews – and there is still a tendency for people to be promoted very quickly, without necessarily gaining the desired experience. This does not bode well for future claims levels.

Loss Prevention

North's strategy is to provide general loss prevention to the Membership as a whole – and, in parallel, to provide direct support for individual Members.

This role has become even more critical in tough economic times. We are convinced that a strong loss prevention function can help Members avoid costly, unnecessary claims. North has a wealth of experience and expertise to draw on, in order to support Members who may on occasions not have access to that expertise in-house.

The key to best practice in loss prevention is to base the process of risk assessment on good quality information.

BUSINESS & OPERATIONAL REVIEW (CONTINUED)

Our service of supplying up-to-date general information therefore includes the provision of information to raise awareness of or to address certain issues – for example: trading to a particular geographical area; new or changing regulations; operating a particular type of ship; or carrying a specific type of cargo.

In 2009 we adjusted our strategy to place more emphasis on identifying significant potential claims risks and taking steps with our Members in an effort to reduce this risk.

North uses a risk-based approach to identify potential claims risks; the process includes internal fleet reviews, claims analysis, representative claims reviews, port state control history, and ship survey review. About 7% of North's Membership underwent detailed fleet reviews in the 2009 policy year.

In addition, our condition survey programme continues to ensure that Membership quality is maintained at a very high standard. Routine surveys of ships are carried out according to the harmonised requirements of the International Group and additional surveys may be carried out on ships that are identified by the risk-based approach.

North's loss prevention activities include the publication of guides, posters, and case studies, and our Signals newsletter, as well as the electronic despatch of Industry News bulletins, loss prevention briefings and guides and club circulars. A range of seminars and workshops are organised in Members' offices around the world.

FD&D

Although there are signs of economic recovery, the shipping industry continues to face difficult and unpredictable markets. As a direct result, North's FD&D team is handling an increase in the number of legal disputes in connection with charter defaults and negotiations, newbuilding delays and cancellations, and a general willingness to dust off old files and pursue relatively 'small' matters that might have been passed over in more lucrative trading times, perhaps to avoid upsetting commercial relationships.

After a rush to enter into long-term COAs in the boom times, the collapse in demand for commodities such as coal and iron ore inevitably led at the end of 2008 and into 2009, to a big increase in disputes in which charterers were unable to perform their contracts. Many of these disputes are hugely complex, largely as a consequence of sub-sub-chartering chains. The effect on our Members, both owners and time charterers, was dramatic. Among the claims against defaulting parties handled by our FD&D team was one dispute estimated to involve about US$100 million.

The total number of files handled by the FD&D department, including claims and enquiries, reached 3,703 in the year ending February 2009, a 36% increase on 2008. The figure fell by 17% in the year ending February 2010, but at 3,070 the total was clearly still at a very high level.

Now that the credit crunch has begun to ease and trade has picked up somewhat, we have seen more opportunity for Members to resolve some of these disputes with pre-payment of cash and the signing of new contracts.

A key development for our FD&D work has been the Rule B decision in the United States, which blocks off an established way of obtaining security and enforcing awards through US bank accounts. The process of pursuing claims and enforcing conditions will in many cases be more challenging now that the US courts have ruled that this process cannot continue.

Offshore Sector

North has been involved in the offshore and specialist operations markets for many years, forging long-lasting partnerships with a number of companies involved in these sectors, understanding their business, meeting their evolving insurance needs and becoming a key extension to their own in-house teams. We have steadily gained a significant and increasing market share in these sectors, as the experienced members of our Offshore Team have developed flexible, innovative and cost-effective insurance solutions and ensured regular contact with all of the Members involved.

As part of the Club's long-term development strategy to expand the marine insurance facilities offered to Members, North's Directors recently decided to provide liability cover for Floating Production Storage and Offloading Units (FPSOs) and other Mobile Offshore Units (MOUs). North's Managers are finalising the terms of the cover, which has already attracted the attention of Members involved in this specialised sector of the marine market. It is anticipated that entries will be taken for FPSOs/MOUs during the course of the current policy year.

The provision of liability cover for units involved in production operations will allow Members to continue using North as their preferred marine liability insurance provider, whilst enjoying the same high levels of service and support with which they have become accustomed.

COMBINED FINANCIAL STATEMENTS

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements

20 FEBRUARY 2010

The Financial Statements of North of England P&I Association Limited (“NEPIA”) and North of England Mutual Insurance Association (Bermuda) Limited (“NoE(Bermuda)”), collectively “the Associations”, are published separately. Financial Statements which combine the results and financial position of the Associations follow on pages 14 to 38. All Members are Members of both Clubs and the combined financial statements have been prepared to allow Members to gain a picture of the overall position. The statements have been prepared for illustrative purposes only and have no legal standing. The return to the Financial Services Authority is based upon the combined position.

Any reference to the Club in the preceding narrative relates to the combined position.

ACCOUNTANTS' REPORT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements

20 FEBRUARY 2010

Accountants' Report to the Members of North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

We report on the unaudited combined financial statements and policy year statement of North of England Protecting and Indemnity Association Limited ("NEPIA") and North of England Mutual Insurance Association (Bermuda) Limited ("NoE(Bermuda)") for the year ended 20 February 2010 ("the combined financial statements"). Our engagement was undertaken in accordance with the International Standard on Related Services 4400 "Engagements to perform agreed upon procedures". The procedures were performed solely to assist the Directors with the preparation of the combined financial statements.

Our Report is prepared solely for the confidential use of NEPIA and NoE(Bermuda), and solely for the purpose of informing the members of NEPIA and NoE(Bermuda). To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than NEPIA and NoE(Bermuda) and of the common members of NEPIA and NoE(Bermuda) as a body, for our work, for this report, or for the opinions we have formed.

Responsibilities

NEPIA's and NoE(Bermuda)'s Directors are responsible for the preparation of the combined financial statements and the policy year statement.

It is our responsibility to carry out the procedures below designed to enable us to report as to whether the combined financial statements and policy year statement have been properly extracted from the financial statements of NEPIA and NoE(Bermuda) for the year ended 20 February 2010.

Agreed upon procedures

We have performed the procedures enumerated below with respect to the combined financial statements as follows:

1. We agreed NEPIA's figures used in the combined financial statements working papers to the signed statutory consolidated financial statements of NEPIA as at 20 February 2010. The auditor's report on the statutory consolidated financial statements of NEPIA was issued by ourselves on 18 May 2010 and was unqualified;
2. We agreed NoE(Bermuda)'s figures used in the combined financial statements working papers to the signed statutory financial statements of NoE(Bermuda) as at 20 February 2010. The auditor's report on the statutory financial statements of NoE(Bermuda) was issued by ourselves on 17 May 2010 and was unqualified;
3. We checked the numerical accuracy of the combined financial statements working papers, including the policy year statement; and
4. We reviewed the accounting policies adopted by NEPIA and NoE(Bermuda), as defined in their respective statutory financial statements, to review whether they are consistent.

ACCOUNTANTS' REPORT (CONTINUED)

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements

20 FEBRUARY 2010

Findings

We report that:

a. With respect to items 1 and 2 we found that the combined financial statements and policy year statement have been properly compiled from the statutory financial statements of NEPIA and NoE(Bermuda); and

b. With respect to item 3 we found that the combined financial statements working papers, including the policy year statement, are numerically accurate; and

c. With respect to item 4 we found that consistent accounting policies have been adopted by NEPIA and NoE(Bermuda).

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the combined financial statements and policy year statement as at 20 February 2010.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

Ernst & Young LLP
London
18 May 2010

COMBINED STATEMENT OF FINANCIAL POSITION

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

AT 20 FEBRUARY 2010

	Note	2010	2009
ASSETS			
Intangible assets		1,827	1,405
Property, plant and equipment		13,807	11,940
Reinsurance contracts	5	305,801	167,504
Financial assets			
Equity securities – at fair value through income	3	50	52
Debt securities – at fair value through income	3	229,485	213,592
Absolute return fund – at fair value through income	3	15,991	13,609
Loans and receivables including insurance and reinsurance receivables		16,673	17,200
Derivative financial instruments		386	–
Retirement benefit asset		18,935	15,083
Current tax asset		274	–
Cash and cash equivalents	4	425,765	413,430
Total assets		1,028,994	853,815
ACCUMULATED SURPLUS			
Income and expenditure account		(16,325)	(46,600)
Contingency funds	13	251,159	253,060
Revaluation reserve		5,428	4,652
Total accumulated surplus		240,262	211,112
LIABILITIES			
Insurance contracts	5	772,236	619,872
Derivative financial instruments		–	580
Reinsurance payables		11,929	11,310
Trade and other payables		4,567	9,693
Current tax liabilities		–	945
Cash and cash equivalents		–	303
Total liabilities		788,732	642,703
Total accumulated surplus and liabilities		1,028,994	853,815

COMBINED INCOME STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

AT 20 FEBRUARY 2010

	Note	2010	2009
Insurance premium revenue		285,051	255,082
Insurance premium ceded to reinsurers	6	(47,619)	(44,177)
		237,432	210,905
Investment income		1,243	4,540
Net fair value gains at fair value through income	7	3,064	(17,058)
Net income		**241,739**	**198,387**
Insurance claims and loss adjustment expenses	8	(340,915)	(167,851)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	150,446	25,625
Net insurance benefits and claims		(190,469)	(142,226)
Expenses for the acquisition of insurance and investment contracts	10	(22,282)	(21,149)
Expenses for marketing and administration	11	(13,529)	(12,875)
Expenses for asset management services rendered		(993)	(2,276)
Expenses		**(227,273)**	**(178,526)**
Results of operating activities		14,466	19,861
Finance income / (expenditure)	12	13,635	(24,673)
Surplus / (Deficit) before tax		28,101	(4,812)
Tax expense		273	(940)
Surplus / (Deficit) for the year		**28,374**	**(5,752)**

COMBINED STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
Foreign exchange gain / (loss) on revaluation of land and building	776	(3,155)
Surplus / (Deficit) for the year	28,374	(5,752)
	29,150	**(8,907)**

NOTES TO THE ACCOUNTS

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

1. ACCOUNTING POLICIES

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

1.1 Basis of presentation

These combined financial statements do not constitute North of England P&I Association Limited's ("NEPIA") statutory accounts for the years ended 20 February 2010 and 20 February 2009. They are the non-statutory combined financial statements of NEPIA and North of England Mutual Insurance Association (Bermuda) Limited ("NoE Bermuda").

These combined financial statements have been prepared in accordance with recognition, measurement and presentation principles of International Financial Reporting Standards (IFRS's) as adopted for use in the European Union. However, whilst the financial information included in these combined financial statements has been computed in accordance with IFRS's, these financial statements do not themselves contain sufficient information to comply with IFRS's and UK company law.

The combined financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial instruments.

The Associations have also adopted the corridor method under IAS 19 'Employee Benefits', recognising a portion of the scheme's actuarial gains and losses as income or expense as required under the standard. The Associations have applied the amended IAS 19 taking into account amendments to paragraphs 32A, 34, 61 and 121.

At the date of authorisation of these financial statements, the following Standards which have not been applied in these financial statements were in issue but not yet effective:

IFRS 9 Financial Instruments – Periods commencing on or after 1 January 2013
IFRS 3R Business Combinations – Periods commencing on or after 1 July 2009
IAS 27R Consolidated and Separate Financial Statements – Periods commencing on or after 1 July 2009
IAS 24R Related Party Disclosures – Periods commencing on or after 1 January 2011
IFRIC 17 Distributions of Non-Cash Assets to Owners – Periods commencing on or after 1 July 2009
IFRIC 18 Transfers of Assets from Customers Transactions on or after 1 July 2009

In some cases these had not yet been endorsed by the EU. The impact of IFRS 9 is still being evaluated and the Directors anticipate that the adoption of the other standards in future periods will have no material impact on the financial statements of the Group.

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Companies' accounting policies.

1.2 Combination

The combined financial statements combine the consolidated financial statements of NEPIA and the financial statements of NoE(Bermuda) made up to 20 February each year.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by NEPIA.

All intra-group transactions, balances, income and expenses are eliminated on consolidation or combination.

1.3 Foreign currency translation

(a) Functional and presentation currency
Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The combined financial statements are presented in thousands of United States Dollars, which is the functional currency of NEPIA and NoE(Bermuda).

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through income, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as land and buildings, are included in the revaluation reserve.

1.4 Property, plant and equipment

Land and building is comprised of the office occupied by NEPIA. Land and building is shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to NEPIA and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve. Decreases that offset previous increases of the same asset and other decreases are charged to the revaluation reserve in the first instance.

Depreciation on property, plant and equipment is calculated to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Land	No depreciation charged.
Buildings	2% per annum reducing balance method.
Computer Equipment	20% per annum straight line method.
Motor Vehicles	25% per annum reducing balance method.
Office Equipment and Fittings	20% per annum straight line method.

The assets' residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate.

An asset's carrying amount is written down immediately through the Income Statement to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

1.5 Intangible assets

Costs in respect of major software developments are capitalised. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the statement of financial position and amortised over the expected life of the software of up to 5 years.

1.6 Investments

Financial assets at fair value through income

The Associations classify their investments as financial assets at fair value through income. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date. Financial assets at fair value through income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through income category are included in the Income Statement in the period in which they arise.

Regular purchases and sales of investments are recognised on trade date, the date on which the Associations commit to purchase or sell the asset. Investments are initially recognised at fair value. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Associations have also transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The Associations do not engage in hedge accounting and changes in the fair value of all derivative instruments are recognised immediately in the Income Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Associations intend to sell in the short term or that they have designated as at fair value through income or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

1. ACCOUNTING POLICIES (CONTINUED)

1.7 Impairment of assets

The Associations assess at each statement of financial position date whether there is objective evidence that a financial asset or non financial asset is impaired. An asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the Associations about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow or carrying amount from an asset or group of assets since the initial recognition of those assets.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Income Statement.

1.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1.9 Revenue and expense recognition

Premium income

All elements of revenue arising from insurance contracts and other related services offered by the Associations are recognised on an accruals basis in the accounting period in which the contract is related or services are rendered. The Associations' policy years run from noon GMT on any 20 February to noon GMT on the next following 20 February. The Associations' financial years are coterminous with their policy years.

Reinsurance premiums and recoveries

Reinsurance premiums, less returns, are charged to the Income Statement on an accrual basis, including a provision for the future expected costs of adjustments to the premium due under existing reinsurance policies. Recoveries under policies purchased by the Associations are accrued so as to match the relevant gross claims and associated provisions and reserves upon which the Associations are entitled to make recoveries.

Claims and related expenses

Claims paid are defined as those claims transactions settled up to the statement of financial position date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the statement of financial position date, net of any provision for bad debt.

Claims reserves are estimated on an undiscounted basis. Any changes to the amounts held are adjusted through the Income Statement. Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the statement of financial position date. Included within the provision is an allowance for the future costs of handling those claims. This is estimated based on past experience and current expectations of future cost levels.

Although the claims reserves are considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections), case by case reviews of notified losses and on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events.

(All Amounts in US Dollar thousands unless otherwise stated)

1.9 Revenue and expense recognition (continued)

Interest

Interest comprises interest on cash deposits and interest bearing securities and is recognised on an accruals basis.

Employee benefits

Salaries and other employee benefits, including holiday pay, are accounted for on an accrual basis. Payments to staff under the discretionary staff performance related bonus scheme are accounted for in the financial year in which they are awarded.

Retirement benefit scheme

NEPIA operates a pension scheme providing benefits based upon final pensionable salary, known as a defined benefit scheme. The assets of the scheme are held separately from those of NEPIA, being invested with professional managers.

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. In accordance with IAS 19, NEPIA recognises a portion of the scheme's actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the preceding reporting period exceeded the greater of (a) 10% of the present value of the defined benefit obligation at that date; and (b) 10% of the fair value of any plan assets at that date. The portion of actuarial gains and losses to be recognised is the excess, determined as described above, divided by the expected remaining average working lives of the employees participating in the plan.

Leases

Where a significant portion of the risks and rewards of ownership is retained by the lessor, they are classified as operating leases. Payments made as lessee under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the relevant leases.

Taxation

UK Corporation Tax is provided on relevant investment income. There is no deferred tax in the year to 20 February 2010 (2009 – nil).

The principal rates of exchange ruling at the statement of financial position date were as follows:

	2010			2009
United Kingdom	£0.649	=	US$1	(£ 0.698)
Euro	€0.740	=	US$1	(€ 0.793)
Japan	YEN91.99	=	US$1	(YEN 94.16)

NOTES TO THE ACCOUNTS (CONTINUED)

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

2. SEGMENTAL ANALYSIS BY CLASS

The segment financial positions for the year ended 20 February 2010 are shown below:

Statement of financial position

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets		1,827	–	–	1,827
Property, plant and equipment		13,807	–	–	13,807
Reinsurance contracts	5	297,741	8,060	–	305,801
Financial assets					
Equity securities:					
– at fair value through income	3	50	–	–	50
Debt securities:					
– at fair value through income	3	229,485	–	–	229,485
Absolute return fund	3	15,991	–	–	15,991
Loans and receivables including insurance and reinsurance receivables		15,652	947	74	16,673
Derivative financial instruments		386	–	–	386
Retirement benefit asset		18,935	–	–	18,935
Current tax asset		274	–	–	274
Cash and cash equivalents	4	379,155	41,745	4,865	425,765
Total assets		**973,303**	**50,752**	**4,939**	**1,028,994**
ACCUMULATED SURPLUS					
Income and expenditure account		(11,753)	(9,456)	4,884	(16,325)
Contingency funds	13	232,649	18,510	–	251,159
Revaluation reserve		5,428	–	–	5,428
Total accumulated surplus		**226,324**	**9,054**	**4,884**	**240,262**
LIABILITIES					
Insurance contracts	5	731,543	40,693	–	772,236
Reinsurance payables		11,035	892	2	11,929
Trade and other payables		4,401	113	53	4,567
Total liabilities		**746,979**	**41,698**	**55**	**788,732**
Total accumulated surplus and liabilities		**973,303**	**50,752**	**4,939**	**1,028,994**

(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS (CONTINUED)

The segment results for the year ended 20 February 2010 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		268,733	16,036	282	285,051
Insurance premium ceded to reinsurers	6	(46,717)	(691)	(211)	(47,619)
		222,016	15,345	71	237,432
Investment income		1,069	158	16	1,243
Net fair value gains at fair value through income	7	3,064	–	–	3,064
Net income		**226,149**	**15,503**	**87**	**241,739**
Insurance claims and loss adjustment expenses	8	(326,643)	(14,272)	–	(340,915)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	148,754	1,692	–	150,446
Net insurance benefits and claims		(177,889)	(12,580)	–	(190,469)
Expenses for the acquisition of insurance and investment contracts	10	(21,425)	(845)	(12)	(22,282)
Expenses for marketing and administration	11	(10,296)	(3,116)	(117)	(13,529)
Expenses for asset management services rendered		(977)	(8)	(8)	(993)
Expenses		**(210,587)**	**(16,549)**	**(137)**	**(227,273)**
Results of operating activities		15,562	(1,046)	(50)	14,466
Finance income / (expenditure)	12	11,938	1,722	(25)	13,635
Surplus / (deficit) before tax		27,500	677	(75)	28,101
Tax expense		232	41	–	273
Surplus / (deficit) for the year		**27,732**	**717**	**(75)**	**28,374**

NOTES TO THE ACCOUNTS (CONTINUED)

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

2. SEGMENTAL ANALYSIS BY CLASS (CONTINUED)

The segment financial positions for the year ended 20 February 2009 are shown below:

Statement of financial position

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets		1,405	–	–	1,405
Property, plant and equipment		11,940	–	–	11,940
Reinsurance contracts	5	161,136	6,368	–	167,504
Financial assets					
Equity securities:					
– at fair value through income	3	52	–	–	52
Debt securities:					
– at fair value through income	3	213,592	–	–	213,592
Absolute return fund	3	13,609	–	–	13,609
Loans and receivables including insurance and reinsurance receivables		16,088	1,013	99	17,200
Retirement benefit asset		15,083	–	–	15,083
Cash and cash equivalents	4	365,305	43,332	4,793	413,430
Total assets		**798,210**	**50,713**	**4,892**	**853,815**
ACCUMULATED SURPLUS					
Income and expenditure account		(40,342)	(11,217)	4,959	(46,600)
Contingency funds	13	233,506	19,554	–	253,060
Revaluation reserve		4,652	–	–	4,652
Total accumulated surplus		**197,816**	**8,337**	**4,959**	**211,112**
LIABILITIES					
Insurance contracts	5	581,634	38,238	–	619,872
Derivative financial instruments		580	–	–	580
Reinsurance payables		10,706	472	132	11,310
Trade and other payables		6,226	3,666	(199)	9,693
Current tax liabilities		945	–	–	945
Cash and cash equivalents		303	–	–	303
Total liabilities		**600,394**	**42,376**	**(67)**	**642,703**
Total accumulated surplus and liabilities		**798,210**	**50,713**	**4,892**	**853,815**

(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS (CONTINUED)

The segment results for the year ended 20 February 2009 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		238,318	15,850	914	255,082
Insurance premium ceded to reinsurers	6	(40,970)	(2,552)	(655)	(44,177)
		197,348	13,298	259	210,905
Investment income		4,289	218	33	4,540
Net fair value gains at fair value through income	7	(19,104)	2,278	(232)	(17,058)
Net income		**182,533**	**15,794**	**60**	**198,387**
Insurance claims and loss adjustment expenses	8	(149,212)	(18,639)	–	(167,851)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	19,257	6,368	–	25,625
Net insurance benefits and claims		(129,955)	(12,271)	–	(142,226)
Expenses for the acquisition of insurance and investment contracts	10	(20,082)	(1,057)	(10)	(21,149)
Expenses for marketing and administration	11	(9,687)	(2,959)	(229)	(12,875)
Expenses for asset management services rendered		(2,274)	(2)	–	(2,276)
Expenses		**(161,998)**	**(16,289)**	**(239)**	**(178,526)**
Results of operating activities		20,535	(495)	(179)	19,861
Finance (expenditure) / income	12	(19,704)	(5,382)	413	(24,673)
Surplus / (deficit) before tax		831	(5,877)	234	(4,812)
Tax expense		(853)	(81)	(6)	(940)
(Deficit) / surplus for the year		**(22)**	**(5,958)**	**228**	**(5,752)**

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3. FAIR VALUE SECURITIES

	At 20 February 2010			
	P&I	FD&D	War Risks	Total
Market value				
Equity securities – at fair value through income	50	–	–	50
Debt securities – at fair value through income	229,485	–	–	229,485
Absolute return fund – at fair value through income	15,991	–	–	15,991
	245,526	**–**	**–**	**245,526**
Cost				
Equity securities – at fair value through income	1	–	–	1
Debt securities – at fair value through income	231,320	–	–	231,320
Absolute return fund – at fair value through income	15,079	–	–	15,079
	246,400	**–**	**–**	**246,400**

	At 20 February 2009			
	P&I	FD&D	War Risks	Total
Market value				
Equity securities – at fair value through income	52	–	–	52
Debt securities – at fair value through income	213,592	–	–	213,592
Absolute return fund – at fair value through income	13,609	–	–	13,609
	227,253	**–**	**–**	**227,253**
Cost				
Equity securities – at fair value through income	1	–	–	1
Debt securities – at fair value through income	214,042	–	–	214,042
Absolute return fund – at fair value through income	15,009	–	–	15,009
	229,052	**–**	**–**	**229,052**

4. CASH AND CASH EQUIVALENTS

	At 20 February 2010			
	P&I	FD&D	War Risks	Total
Cash at bank and in hand	19,237	325	74	19,636
Short-term bank deposits	6,696	–	–	6,696
Money market funds	352,831	41,420	4,791	399,042
Short-term maturity bonds	391	–	–	391
	379,155	**41,745**	**4,865**	**425,765**

	At 20 February 2009			
	P&I	FD&D	War Risks	Total
Cash at bank and in hand	10,331	312	18	10,661
Short-term bank deposits	15,186	–	–	15,186
Money market funds	334,683	43,020	4,775	382,478
Short-term maturity bonds	5,105	–	–	5,105
	365,305	**43,332**	**4,793**	**413,430**

(All Amounts in US Dollar thousands unless otherwise stated)

5. INSURANCE CONTRACTS

Policy year analysis

	Closed years	2007	Open policy years 2008	2009	Handling reserve	Total
ALL CLASSES						
At 20 February 2010						
Gross outstanding claims	232,975	70,304	168,508	277,049	23,400	772,236
Reinsurance amount	77,962	20,785	86,851	120,203	–	305,801
Net outstanding claims	**155,013**	**49,519**	**81,657**	**156,846**	**23,400**	**466,435**
At 20 February 2009						
Gross outstanding claims	260,691	120,246	221,235	–	17,700	619,872
Reinsurance amount	73,041	32,247	62,216	–	–	167,504
Net outstanding claims	**187,650**	**87,999**	**159,019**	**–**	**17,700**	**452,368**

	Closed years	2007	Open policy years 2008	2009	Handling reserve	Total
P&I CLASS						
At 20 February 2010						
Gross outstanding claims						
Members	203,344	57,033	151,886	227,819	17,600	657,682
Pooling agreement	22,926	8,965	4,294	37,676	–	73,861
	226,270	**65,998**	**156,180**	**265,495**	**17,600**	**731,543**
Reinsurance amount						
Recoveries due under the pooling agreement	24,248	3,284	4,302	51,676	–	83,510
Recoveries due from reinsurers	53,714	17,501	75,741	67,275	–	214,231
	77,962	**20,785**	**80,043**	**118,951**	**–**	**297,741**
Net outstanding claims	**148,308**	**45,213**	**76,137**	**146,544**	**17,600**	**433,802**
At 20 February 2009						
Gross outstanding claims	250,987	113,711	203,736	–	13,200	581,634
Reinsurance amount	72,968	32,247	55,921	–	–	161,136
Net outstanding claims	**178,019**	**81,464**	**147,815**	**–**	**13,200**	**420,498**

NOTES TO THE ACCOUNTS (CONTINUED)

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5. INSURANCE CONTRACTS (CONTINUED)

	Closed years	Open policy years 2007	2008	2009	Handling reserve	Total
FD&D CLASS						
At 20 February 2010						
Gross outstanding claims	6,705	4,306	12,328	11,554	5,800	40,693
Reinsurance amount						
Recoveries due from reinsurers	–	–	6,808	1,252	–	8,060
	–	–	6,808	1,252	–	8,060
Net outstanding claims	**6,705**	**4,306**	**5,520**	**10,302**	**5,800**	**32,633**
At 20 February 2009						
Gross outstanding claims	9,704	6,535	17,499	–	4,500	38,238
Reinsurance amount	73	-	6,295	–	–	6,368
Net outstanding claims	**9,631**	**6,535**	**11,204**	**–**	**4,500**	**31,870**

WAR RISKS CLASS

There were no outstanding claims at 20 February 2010 (20 February 2009 – nil).

6. INSURANCE PREMIUM CEDED TO REINSURERS

	Year ended 20 February 2010 P&I	FD&D	War Risks	Total
Market	21,145	691	110	21,946
International Group	25,572	–	–	25,572
War Risks Group	–	–	101	101
	46,717	691	211	47,619

	Year ended 20 February 2009 P&I	FD&D	War Risks	Total
Market	21,430	2,552	453	24,435
International Group	19,540	–	–	19,540
War Risks Group	–	–	202	202
	40,970	2,552	655	44,177

(All Amounts in US Dollar thousands unless otherwise stated)

7. NET FAIR VALUE GAINS AT FAIR VALUE THROUGH INCOME

	Year ended 20 February 2010			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	6,954	–	–	6,954
Net realised losses	(5,298)	–	–	(5,298)
Net movement on unrealised losses	1,413	–	–	1,413
	3,069	**–**	**–**	**3,069**
Equities				
Net movement on unrealised losses	(5)	–	–	(5)
	(5)	–	–	(5)
Total	**3,064**	**–**	**–**	**3,064**

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	8,573	5	–	8,578
Net realised gains	26,525	4,686	1,012	32,223
Net movement on unrealised losses	(20,677)	(2,413)	(849)	(23,939)
	14,421	**2,278**	**163**	**16,862**
Equities				
Dividends	1,312	–	15	1,327
Net realised (losses) / gains	(37,218)	–	115	(37,103)
Net movement on unrealised gains / (losses)	2,381	–	(525)	1,856
	(33,525)	**–**	**(395)**	**(33,920)**
Total	**(19,104)**	**2,278**	**(232)**	**(17,058)**

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8. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	Year ended 20 February 2010			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	141,572	8,377	–	149,949
Pooling agreement	21,914	–	–	21,914
Claims handling costs	13,248	3,440	–	16,688
	176,734	**11,817**	**–**	**188,551**
Movement in gross outstanding claims				
Members' claims	140,781	2,455	–	143,236
Pooling agreement	9,128	–	–	9,128
	149,909	**2,455**	**–**	**152,364**
Total gross claims	**326,643**	**14,272**	**–**	**340,915**

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	124,550	4,567	–	129,117
Pooling agreement	18,283	–	–	18,283
Claims handling costs	11,972	3,033	–	15,005
	154,805	**7,600**	**–**	**162,405**
Movement in gross outstanding claims				
Members' claims	(3,701)	11,039	–	7,338
Pooling agreement	(1,892)	–	–	(1,892)
	(5,593)	**11,039**	**–**	**5,446**
Total gross claims	**149,212**	**18,639**	**–**	**167,851**

(All Amounts in US Dollar thousands unless otherwise stated)

9. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES RECOVERED FROM REINSURERS

	Year ended 20 February 2010			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	1,128	–	–	1,128
Claims recoverable under the pooling agreement	11,020	–	–	11,020
	12,148	–	–	12,148
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	90,521	1,692	–	92,213
Recoveries due under the pooling agreement	46,085	–	–	46,085
	136,606	1,692	–	138,298
Total	148,754	1,692	–	150,446

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	8,644	–	–	8,644
Claims recoverable under the pooling agreement	5,100	–	–	5,100
	13,744	–	–	13,744
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	3,299	6,368	–	9,667
Recoveries due under the pooling agreement	2,214	–	–	2,214
	5,513	6,368	–	11,881
Total	19,257	6,368	–	25,625

NOTES TO THE ACCOUNTS (CONTINUED)

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10. EXPENSES FOR THE ACQUISITION OF INSURANCE AND INVESTMENT CONTRACTS

	Year ended 20 February 2010			
	P&I	FD&D	War Risks	Total
Brokerage	16,216	845	12	17,073
Acquisition costs	5,209	–	–	5,209
	21,425	**845**	**12**	**22,282**

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Brokerage	14,598	1,057	10	15,665
Acquisition costs	5,484	–	–	5,484
	20,082	**1,057**	**10**	**21,149**

In accordance with Schedule 3 of the International Group Agreement 1999 we are required to disclose the Average Expense Ratio for the Association's P&I business for the five years ended 20 February 2010. The Ratio of 11.4% (2009 – 10.8%) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements of NEPIA and NoE(Bermuda).

11. EXPENSES FOR MARKETING AND ADMINISTRATION

	Year ended 20 February 2010			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	30,913	6,556	117	37,586
Acquisition costs	(5,209)	–	–	(5,209)
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(2,160)	–	–	(2,160)
Claims handling costs	(13,248)	(3,440)	–	(16,688)
	10,296	**3,116**	**117**	**13,529**

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	29,299	5,992	229	35,520
Acquisition costs	(5,484)	–	–	(5,484)
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(2,156)	–	–	(2,156)
Claims handling costs	(11,972)	(3,033)	–	(15,005)
	9,687	**2,959**	**229**	**12,875**

(All Amounts in US Dollar thousands unless otherwise stated)

12. FINANCE INCOME

	Year ended 20 February 2010			
	P&I	FD&D	War Risks	Total
Foreign exchange expense on investments	6,864	1,542	–	8,406
Other	5,074	180	(25)	5,229
	11,938	**1,722**	**(25)**	**13,635**

	Year ended 20 February 2009			
	P&I	FD&D	War Risks	Total
Foreign exchange income / (expense) on investments	(7,571)	(5,098)	–	(12,669)
Other	(12,133)	(284)	413	(12,004)
	(19,704)	**(5,382)**	**413**	**(24,673)**

13. CONTINGENCY FUNDS

Protecting and Idemnity Class

	2010	2010	2009	2009
Balance at 20 February 2009		233,506		236,589
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment losses and income	(10,150)		(36,842)	
Surplus transferred from closed policy years	9,293		33,759	
		(857)		(3,083)
Balance at 20 February 2010		**232,649**		**233,506**

The contingency fund was established on 12 October 1983 in order to maintain premium stability.

Freight, Demurrage & Defence Class

	2010	2010	2009	2009
Balance at 20 February 2009		19,554		21,669
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment losses and income	999		(1,322)	
Deficit transferred from closed policy years	(2,043)		(793)	
		(1,044)		(2,115)
Balance at 20 February 2010		**18,510**		**19,554**

The contingency fund was established on 23 September 1994 in order to maintain premium stability.

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14. INTERNATIONAL GROUP DISCLOSURE

Disclosure for the International Group accounting requirements in respect of outstanding reinsurance recoveries on paid claims in the P&I Class is as follows:

	2010	2009
Recoveries due under the pooling agreement	247	11
Recoveries due from other reinsurers	2,168	3,155
	2,415	**3,166**

Disclosure for the International Group accounting requirements in respect of the change in provision in respect of claims paid in the P&I Class is as follows:

	2010	2009
Gross outstanding claims		
Members	140,782	(3,701)
Pooling agreement	9,128	(1,893)
	149,910	**(5,594)**
Reinsurers' share		
Recoveries due from reinsurers	(90,521)	(3,299)
Recoveries due under the pooling agreement	(46,085)	(2,214)
	(136,606)	**(5,513)**
Movement in net outstanding claims	**13,304**	**11,107**

COMBINED P&I CLASS POLICY YEAR STATEMENT

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	Closed years	2007/ 2008	2008/ 2009	2009/ 2010	Claims Handling Reserve	Contingency Funds	Unrealised Losses	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		184,802	221,266	–	–	–	–	406,068
Invoiced in Current Year		(115)	403	250,228	–	–	–	250,516
		184,687	221,669	250,228	–	–	–	656,584
Release Premium		1,310	2,475	630	–	–	–	4,415
		185,997	224,144	250,858	–	–	–	660,999
Reinsurance Premiums		(37,180)	(40,617)	(47,050)	–	–	–	(124,847)
		148,817	183,527	203,808	–	–	–	536,152
Investment income, gains on sales of investments, and exchange movements		20,694	20,609	25,300	–	107,160	(873)	172,890
Transfers		–	–	–	–	128,554	–	128,554
		169,511	204,136	229,108	–	235,714	(873)	837,596
Members' & Pool Claims		(100,213)	(79,896)	(59,444)	–	–	–	(239,553)
Expenses & Tax		(28,819)	(30,269)	(29,500)	–	(3,065)	–	(91,653)
Surplus Available on Closed Years	148,308	–	–	–	–	–	–	148,308
Balances Available for Outstanding Claims	148,308	40,479	93,971	140,164	–	232,649	(873)	654,698
Outstanding Claims	(226,270)	(65,998)	(156,180)	(265,495)	(17,600)	–	–	(731,543)
Reinsurance Recoveries	77,962	20,785	80,043	118,951	–	–	–	297,741
	(148,308)	(45,213)	(76,137)	(146,544)	(17,600)	–	–	(433,802)
Revaluation Reserve	–	–	–	–	–	–	–	5,428
Surplus / (Deficit) at 20 February 2010	**–**	**(4,734)**	**17,834**	**(6,380)**	**(17,600)**	**232,649**	**(873)**	**226,324**
Surplus / (Deficit) at 20 February 2009	(605)	(16,352)	(8,387)	–	(13,200)	233,506	(1,798)	197,816

NOTES TO THE COMBINED P&I CLASS POLICY YEAR STATEMENT

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1. The Combined P&I Class Policy Year Statement ("the Statement") is based on the combined policy year results of the Association and NoE(Bermuda) ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its P&I risks and accumulated outstanding claims with NoE(Bermuda). The Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2010.
2. Investment income, gains and losses on sales of investments and exchange movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years, and the remainder is allocated to the contingency fund. The foreign exchange gain on the freehold building is included in unrealised gains and foreign exchange.
3. Premium is net of brokerage.
4. Expenses and tax charged to open policy years are as follows:

	2007/2008	2008/2009	2009/2010
General and administrative expenses	25,797	27,142	28,754
Investment expenses	1,768	2,273	978
Taxation	1,254	854	(232)
	28,819	**30,269**	**29,500**

5. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.
6. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.
7. Future investment income has not been included in the statement and claims have not been discounted.
8. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability.
9. The approximate yield of a 10% supplementary call on the open policy years would be: 2007/08 US$15.2 million
2008/09 US$18.3 million
2009/10 US$21.7 million

COMBINED FD&D CLASS POLICY YEAR STATEMENT

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
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(All Amounts in US Dollar thousands unless otherwise stated)

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	Closed years	2007/ 2008	2008/ 2009	2009/ 2010	Claims Handling Reserve	Contingency Funds	Unrealised Gains	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		12,637	14,692	–	–	–	–	27,329
Invoiced in Current Year		20	(123)	15,081	–	–	–	14,978
		12,657	14,569	15,081	–	–	–	42,307
Release Premium		94	181	27	–	–	–	302
		12,751	14,750	15,108	–	–	–	42,609
Reinsurance Premiums		(1,160)	(1,375)	(926)	–	–	–	(3,461)
		11,591	13,375	14,182	–	–	–	39,148
Investment income, gains on sales of investments, and exchange movements		1,188	849	881	–	4,340	–	7,258
Transfers from closed years		–	3,500	–	–	14,170	–	17,670
		12,779	17,724	15,063	–	18,510	–	64,076
Claims		(2,868)	(6,475)	(1,356)	–	–	–	(10,699)
Expenses & Tax		(5,797)	(6,075)	(6,523)	–	–	–	(18,395)
Surplus Available on Closed Years	6,705	–	–	–	–	–	–	6,705
Balances Available for Outstanding Claims	6,705	4,114	5,174	7,184	–	18,510	–	41,687
Outstanding Claims	(6,705)	(4,306)	(12,328)	(11,554)	(5,800)	–	–	(40,693)
Reinsurance Recoveries	–	–	6,808	1,252	–	–	–	8,060
	(6,705)	(4,306)	(5,520)	(10,302)	(5,800)	–	–	(32,633)
Surplus / (Deficit) at 20 February 2010	**–**	**(192)**	**(346)**	**(3,118)**	**(5,800)**	**18,510**	**–**	**9,054**
Surplus / (Deficit) at 20 February 2009	(528)	(1,757)	(4,432)	–	(4,500)	19,554	–	8,337

NOTES TO THE COMBINED FD&D CLASS POLICY YEAR STATEMENT

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1. The Combined FD&D Class Policy Year Statement ("the Statement") is based on the combined policy year results of the Association and NoE(Bermuda) ("the Associations"). The Statement aggregates the policy year statements of the Associations and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its FD&D risks and accumulated outstanding claims with NoE(Bermuda). The Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2010.
2. Investment income, gains and losses on sales of investments and exchange movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years, and the remainder is allocated to the contingency fund.
3. Premium is net of brokerage.
4. Expenses and tax charged to open policy years are as follows:

	2007/2008	2008/2009	2009/2010
General and administrative expenses	5,706	5,992	6,556
Investment expenses	7	2	8
Taxation	84	81	(41)
	5,797	6,075	6,523

5. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.
6. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.
7. Future investment income has not been included in the statement and claims have not been discounted.
8. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability. The surplus on closed years has been transferred to the Contingency Fund.
9. The approximate yield of a 10% supplementary call on the open policy years would be: 2007/08 US$0.8 million
2008/09 US$1.0 million
2009/10 US$1.2 million

NOTES

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