MANAGEMENT REPORT 2011

NORTH

SERVICE, STRENGTH, QUALITY

Cover photography: North's Quayside Office and Millennium Bridge, Newcastle upon Tyne

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

FINANCIAL SUMMARY

FIVE YEAR COMBINED SUMMARY

Amount in US$ million; All classes

Income and expenditure

	2010/11	2009/10	2008/09	2007/8	2006/7
Premium	314.2	285.1	255.1	213.0	193.5
Investment income less tax	15.4	12.0	(28.4)	41.5	60.4
Exchange gain – technical	1.9	6.0	(15.2)	0.3	4.1
Reinsurance costs	(59.7)	(47.6)	(44.2)	(34.5)	(28.6)
Net claims incurred	(156.0)	(190.5)	(142.2)	(162.1)	(179.7)
Expenses	(43.7)	(35.8)	(34.0)	(28.4)	(27.5)
Increase / (decrease) in free reserve	**72.1**	**29.2**	**(8.9)**	**29.8**	**22.2**

Balance sheet

	Feb-11	Feb-10	Feb-09	Feb-08	Feb-07
Investments	341.3	245.5	227.3	570.4	517.5
Cash and cash equivalents	429.2	425.8	413.4	79.9	85.5
Other assets	61.6	51.6	45.6	50.0	48.3
	832.1	722.9	686.3	700.3	651.3
Creditors	(21.7)	(16.2)	(22.8)	(21.5)	(17.3)
Net assets	810.4	706.7	663.5	678.8	634.0
Net outstanding claims	(498.0)	(466.4)	(452.4)	(458.8)	(443.8)
Free reserves	**312.4**	**240.3**	**211.1**	**220.0**	**190.2**

CHAIRMAN'S STATEMENT

We have seen a strong year in terms of membership development, culminating in a successful renewal at 20 February 2011 and continue to make progress in developing the quality of tonnage entered.

As we enter our 151st year, I am delighted to be able to report another 12 months of considerable achievement and further significant progress towards our overall strategic objectives of enhancing the Club's financial strength, developing the size and quality of the membership, as well as further improving our service.

During what has been another year of global economic uncertainty, the financial position of the Club has strengthened considerably with free reserves increasing by 30% to stand at US$312.4 million at 20 February 2011. The modern day development of the Club has been largely underpinned by our financial strength and stability and we are committed to a policy of maintaining our long record of 20 consecutive years without any requirement for unbudgeted supplementary calls from our Members.

The financial strength of the Club is independently and properly assessed according to recognised and accepted ratios and measures by Standard & Poor's, who have awarded the Club an 'A' rating for the sixth consecutive year.

The Club's capital is measured at 'AAA' using Standard & Poor's capital model. In addition, the Club's regulatory capital exceeds the anticipated Solvency II requirements by more than 200%.

It has been an exceptional underwriting year with a combined ratio of 78.8%, partly contributed to by a reduction in International Group Pool claims. Whilst this result is welcomed and again demonstrates the Club's independence from investment return subsidy, the Club's overall strategic objective is of course to maintain cost effective premiums and breakeven underwriting for the benefit of the membership.

We have seen a strong year in terms of membership development, culminating in a successful renewal at 20 February 2011. We are always particularly encouraged by the level of support from our existing Members, who once again have entered significant additional tonnage throughout the policy year. We were also pleased to welcome a number of new Members to the Club and we continue to make progress in developing the quality of tonnage entered and moving towards our strategic aim of insuring a significant proportion of the world's tonnage.

We have taken the opportunity during our 150th year of operation to invest heavily in our resources, particularly with the extension and refurbishment of our Quayside headquarters in Newcastle upon Tyne. This represents a major investment in the future of the Club and will enable us in due course to recruit additional staff to service our Members' needs as the Club develops further. We have also continued our commitment to investment in our IT and business systems through the implementation of project Quay Change, which is replacing and updating our core operating systems, enabling us to provide a more efficient and responsive service to our membership.

During the year, both the shipping industry and the Club faced a number of challenges and due to the unpredictable nature of shipping, it is very likely that there will be even tougher challenges ahead. Government and regulatory intervention have played a major part both for our Members and the Club.

Trade sanctions imposed on Iran have had an effect on the Club's ability to handle claims arising in Iran and also our ability to provide insurance to Iranian interests. As a result we have had to take steps to modify the extent of Club cover to deal with the impact of sanctions. The Iranian sanctions have criminalised not just the party trading in breach of the sanctions, but also those who support the party, namely financiers, brokers and insurers.

Piracy continues to be a major issue and has intensified over the last 12 months. Although counter piracy measures have been implemented, pirates have shown resourcefulness and have adapted to this, and we remain concerned at the apparent lack of cohesive governmental interest and support in properly tackling this issue. As a Club we will do all we can to support our Members to find ways of overcoming the problems of piracy, and we would again urge more supportive action from governments to counter the direct threat to global trade, and to encourage clearer and more consistent penalties for pirates who are apprehended.

It has also been widely reported during the year that the European Commission is looking at the International Group's arrangements, and has now commenced a formal investigation. We and other members of the International Group are cooperating fully with the Commission with the aim of assisting their investigation, helping them to arrive at a swift and appropriate conclusion. We have previously written about the unique advantages of the International Group and Pooling system, which underpins the world's shipping industry and the vital role the Clubs play in enabling shipowners to facilitate world trade.

We know our Members greatly value the International Group Club system and we sincerely hope that this will be of considerable influence in ultimately determining the outcome of the Commission's investigation.

Going forward we remain committed to achieving progress in respect of our overall strategic objectives. This is now my fourth year as Chairman and I can safely say that I am confident that the Club will be successful due to the quality, dedication and professionalism of all the staff who protect the values upon which the Club has been built, namely service, trust, integrity and importantly by caring for the Club's Members. I would like to thank all of our Members for their continued support and my fellow Directors for their diligent attention to North's affairs. During the year Mr H Mohammad and Mr WL Sinclair retired from the Board and I would like to thank them for their contribution, as well as Mr WAC Thomson, my predecessor as Chairman, who leaves the Board after many years of valuable service and commitment to the Club's interests. I would also like to welcome Captain SY Michael, Mr PA Curtis and Mr AJ Agarwal as new Board members during the year.

In conclusion I am sure that North will continue to respond to and meet the challenges presented to the industry and that we will continue to meet the rightful expectations of our Members.

Albert Engelsman
Chairman
July 2011

JOINT MANAGING DIRECTORS' STATEMENT

ANNUAL HIGHLIGHTS

- 'A' rating from Standard & Poor's
- Combined ratio of 78.8%
- Free reserves at US$312.4 million
- Net assets of US$810.4 million
- Total entered tonnage 150 million GT

Our 150th Anniversary in 2010 was a significant achievement, which we happily celebrated with many of our Members worldwide, and as we now look back on the year we can do so with satisfaction in respect of the significant progress which has been made in many areas of the Club's business.

As we move forward, we do so with caution, as the unpredictable nature of our industry continues to present us with many challenges, and we must be diligent to ensure that our robust position is maintained.

As we mentioned in our first report as Joint Managing Directors last year, quality, service and strength remain common threads throughout North and we are committed to maintaining a financially strong and stable Club, with a quality membership and a service focus which provides care to and for our Members.

The Club remains in excellent shape with continued focus on disciplined underwriting and cautious investment. We have seen a substantial increase in our free reserve to US$312.4 million, achieved via a positive underwriting surplus of US$55 million with a combined ratio of 78.8%, and an investment income of US$17 million.

Financial stability is vitally important to our Members and we are pleased that North is now entering its 20th consecutive year of no unbudgeted supplementary funding. We have every intention of continuing this record by securely building the Club's financial strength and resources and gradually developing the membership.

We reported last year on the Club's progress under the European regulatory regime Solvency II (due for European application from January 2013, subject possibly to a further 12 month delay until 2014). We have directed considerable resource and time to ensuring that the Club will be fully compliant with Solvency II requirements. In addition to the capital requirements which we already comfortably exceed, we are enhancing our corporate governance and reporting regimes and reviewing the overall corporate structure of the Club.

Our primary focus is to continue to provide our Members with the highest possible levels of service and care.

We would like to thank all of our Members for their loyalty and trust.

Our aim remains to mitigate, where possible, risks that could interfere with achievement of the Association's objectives. This is achieved through effective risk management undertaken by the Club's Directors and with day to day operational oversight from the Audit Committee, Enterprise Risk Management Committee and Executive management.

We continue to make progress towards our strategic objective of insuring a significant percentage of the world's fleet and during the last 12 months we received tremendous encouragement from our existing membership, who entered further additional tonnage with the Club, largely reflecting the strength of the personal relationships that have been forged over time. At 20 February 2011 the owned tonnage had reached a record level of 105 million GT and together with chartered tonnage, the Club had reached 150 million GT overall.

It has been a benign year for our Members' claims across all types and although the frequency of claims is very slightly higher than the previous year, the total value is significantly lower. Compared to the unexpected spike in Pool claims in 2009, during the last policy year we had no Pool claims, demonstrating the highly random nature of such claims.

Our primary focus is to continue to provide our Members with the highest possible levels of service and care. We continue to invest in our human resources and business systems to support our growth and we are committed to strengthening our personnel and providing an engaging working environment. We were delighted to move back to our newly refurbished offices in March 2011.

It has been a challenging year for the Club but we have met those challenges with confidence and determination. As we move forward we will continue to find new and innovative ways of providing the highest levels of service to our Members, and we will continue to develop our financial strength and security through disciplined underwriting and by maintaining a prudent and cautious approach to our financial and investment strategies.

We would once again like to thank all of our Members for their loyalty and trust, the Board of shipowner Directors for leading and supporting our initiatives and our dedicated staff whose enthusiasm underpins the Club's success and development.

Alan Wilson & Paul Jennings
Joint Managing Directors
July 2011

FINANCIAL OVERVIEW

FINANCIAL POSITION

The Club benefited from a very satisfactory financial performance in the year to 20 February 2011, resulting in free reserves increasing by 30% (US$72.1 million) to their highest level of US$312.4 million. This result ensured that the Club continues to enjoy robust financial health and reflects the Board's policy of providing sustainable and cost effective insurance and service whilst maintaining financial prudence. This policy is recognised by the credit rating agency Standard & Poor's (S&P) and is reflected in their recent confirmation of a rating of 'A' with a stable outlook.

The strength and conservatism of the Club's balance sheet produces capital rated at 'AAA' using S&P's capital model. This strength is underlined by the Club's internal assessment of regulatory capital which shows the capital available is 205% of the anticipated Solvency II capital requirements.

The Club's claims experience proved to be exceptionally favourable with Members' and other Clubs' Pool claims for the 2010 policy year proving to be lower than anticipated and this was complemented with improved experience of both Members' and other Club's Pool claims in prior years.

The combination of these positive developments produced a financial year combined ratio of 78.8% (2010 – 94.8%), the lowest in the Club's history.

The policy year to 20 February 2011 has been a benign year for Members' claims, particularly in respect of larger claims. There were only 17 claims reserved in excess of US$1 million, compared to 24 in the 2009 policy year and 39 in 2008. North did not incur any claims to be presented to the Pool in the 2010 policy year, contrasting with the five incurred in the previous year.

The Pool costs for 2010 also reflect a relatively subdued environment with notified claims at 20 February 2011 of US$160.3 million, compared to US$233.8 million in the previous year. Our ultimate cost forecast for International Group claims at the respective 12 month development point is US$339.9 million for the 2010 policy year, compared to US$418.7 million in 2009, underlining the fortuitous nature of large claims.

Claims reserves on years prior to 2010 have developed more favourably than forecasted by both North and independent actuarial experts. In particular, net claims for the 2009 policy year improved by US$25.1 million. US$16.4 million of this amount was due to the reduction in costs associated with the Pool; which resulted from reductions in the Club's contribution percentage for the lower layer of the Pool for 2009 and the Club's own assessment of Pool claim values (from US$418.7 million noted above to US$283.8 million).

The Club's capital is rated at 'AAA' using Standard & Poor's capital model and the Club's regulatory capital exceeds the anticipated Solvency II requirements by more than 200%.

North's estimated share of the Pool for the 2006 policy year fell from US$20.4 million to US$17.1 million as a result of the finalisation of the contributing proportions.

In accordance with the Association's reserving policy, Members' net claims have been reserved at a 95% confidence level, as assessed by an independent actuary.

The operating result was complemented by a US$17.3 million contribution from the Club's investment portfolios.

The financial year to 20 February 2011 has been very successful for North and its Members. A record surplus, derived from a strong underwriting performance and a positive investment return, has resulted in a substantial free reserve level which underpins the development of the Club.

INVESTMENTS

The P&I Class portfolio return for the financial year to 20 February 2011 was +2.71% producing US$15.9 million of net investment income for the 2010/11 financial year. The portfolio continues to be very conservatively positioned with 78.8% of the fund invested in Government Bonds, predominantly US Government Bonds, and 6.9% in cash. The allocation of the risk budget is to absolute return funds, 12.0%, and a small exposure to corporate bonds, 2.3%. The major asset allocation change during the year was to reallocate assets from the money markets to a short-dated US Treasury strategy.

The FD&D and War Risks Classes portfolios are invested in money market funds and short-dated US Treasuries respectively. The portfolios and other currency exposures benefited from a favourable movement in exchange rates.

The benchmark of +3.53% includes an element of equity performance which was absent in the portfolio.

Across all classes of business, investments and cash increased by US$99.2 million as a result of net investment of US$45.9 million, a return on investment of US$17.3 million and a further US$36 million of positive cash flow. The balance sheet is very liquid.

The markets continue to be extremely volatile and the Board is satisfied that the cautious approach to investing is appropriate. At their meeting in May 2011, the Bermuda Board approved an investment which will increase the exposure to corporate bonds from to 2.3% to 17.3% and reduce the investment in short-dated US Treasuries and cash from 66.8% to 51.8%. Interest rate sensitivity in the corporate bond portfolio will be managed by adopting an appropriate duration hedge overlay.

FINANCIAL OVERVIEW (CONTINUED)

RISK MANAGEMENT & REGULATION

North's Board and Managers are continuing their preparations for Solvency II, the risk based European regulatory framework currently scheduled to be effective from 1 January 2013. This is an important area for the Club and has been the subject of extensive reporting and discussion at Board and committee meetings. Significant management resource has been invested in terms of time and money to ensure the Club is prepared in advance of the implementation date.

Solvency II will require European insurance organisations to meet the requirements of three "pillars":

Pillar 1: Firms will be required to demonstrate that they have adequate financial resources to meet their risks;

Pillar 2: Firms will be required to demonstrate that they have adequate systems of governance and risk management to manage their risks;

Pillar 3: Firms will be required to make public disclosures and report to their regulator on pillars 1 and 2 (their financial resources, systems of governance and risk management).

With respect to Pillar 1, the Board are very comfortable with the capital position of North. The ratio of net assets to outstanding claims is 1.62 and the solvency ratio, which measures the capital resources to minimum capital requirement, is 420%.

The Association's Individual Capital Assessment, which is very close to the expected Standard Formula requirement under Solvency II, is less than half of the Regulatory Capital available to cover the requirement.

With respect to the requirements of Pillars 2 and 3, North has made substantial headway in moving towards readiness for Solvency II and as part of its ongoing preparations the Board has reviewed a 'gap analysis' prepared by the Managers and approved an implementation plan which sets out how North intends to close those 'gaps'.

The Board will continue its focus in this area and is confident that the Club is making appropriate progress.

REINSURANCE

Comprehensive and highly secure reinsurance is one of the five key financial principles that are central to North's strategy, being used efficiently to reduce volatility in underwriting performance and enable consistency in financial planning.

North's reinsurance programme comprises several elements, the main and high level component being the pooling and reinsurance arrangements undertaken with other Clubs as part of the International Group of P&I Associations.

For the 2011/12 policy year, the retention of the individual Clubs within the International Group has remained at US$8 million, although the International Group's own

retention before buying reinsurance has been increased from US$50 million to US$60 million. This increased exposure of US$10 million is being borne by the Group's capitive, Hydra, which previously covered US$30 million to US$50 million and in turn has received the equivalent premium savings. This change, which was supported by North, underlines Hydra's importance as a key part of the Group's reinsurance strategy, allowing for more cost effective risk-transfer and retention of risk where appropriate savings are available.

The number of Pool claims notified to date for the 2010/11 policy year are at the same level as in 2009/10 but with no claims currently reported by North. The gross value of North's Pool claims in 2009 is now just over US$80 million (US$40 million net of retention), improving as anticipated, and North remains a net contributor to the Pool.

Other than the change in the US$60 million attachment point, the structure of the International Group's reinsurance programme remains as in the 2010/11 policy year, with the first layer of US$500 million excess of US$60 million remaining co-insured by Hydra to the extent of 25%. The second layer of US$500 million and a third of US$1 billion are complemented by a collective overspill policy providing a further US$1 billion excess of US$2.06 billion and a separate Excess War P&I cover providing US$500 million excess of primary War P&I cover. Despite a challenging renewal, overall premium savings were made, which allowed for a reduction in rates to be passed on to Members in all categories of ships.

The ability of North's Members to benefit from the competitive rating of the International Group Excess Loss contract, which remains the largest marine reinsurance contract in the world, and the sharing of retained risk through pooling and Hydra is a key benefit of the International Group system.

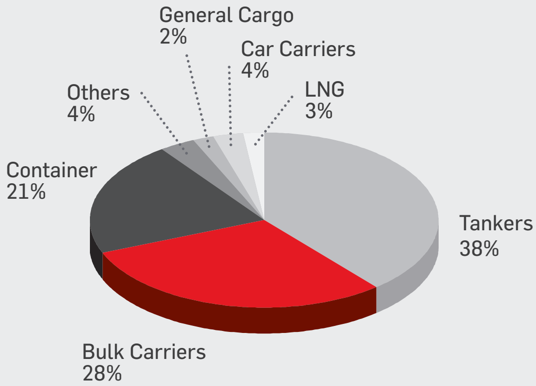
North also protects claims within its US$8 million retention. A continuing review of the way in which this protection is arranged has resulted in a change to the programme for the 2011/12 policy year by replacing the previous stop loss programme with an excess loss programme that more efficiently meets the requirement to reduce volatility in a cost effective manner, whilst maintaining our longstanding relationships with our reinsurers.

In addition to the protection of P&I risks for the mutual membership, North continues to offer a range of non-poolable covers using a reinsurance programme, with limits of up to US$750 million, that allows for the continuing development of the offshore liability facility as well as comprehensive covers for charterers and a growing range of additional non-poolable covers. North's underwriting prudence and conservatism was recognised by reinsurers in their renewal of this cover on satisfactory terms against a challenging market background.

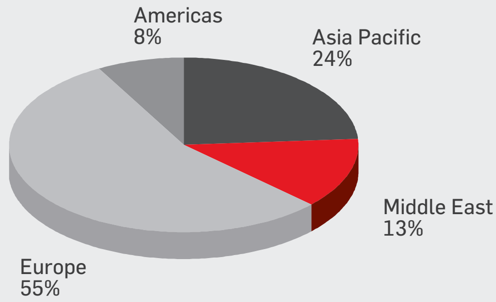
The Club also arranges stop loss protection cover for the FD&D Class and the War Class is fully reinsured through the pooling and reinsurance arrangements of the Combined Group of War Risk Associations.

All of these reinsurances support the key strategic objective to expand the range of products offered by North whilst reducing overall volatility.

BUSINESS & OPERATIONAL OVERVIEW



Entered GT by Ship Type at 20 February 2011



Entered GT by Geographical Region at 20 February 2011

MEMBERSHIP

One of the key objectives of the Club is to improve and maintain the quality of the membership and progress has been made towards this objective, ensuring sustainability and selective growth.

A challenging year for the Underwriting Department has led to exciting developments, increased entered tonnage and strong long-term business opportunities. A difficult, but improving, financial environment (which has had such a significant impact on world shipping), UN sanctions and continued financial issues in the world economy have all impacted on the underwriting year.

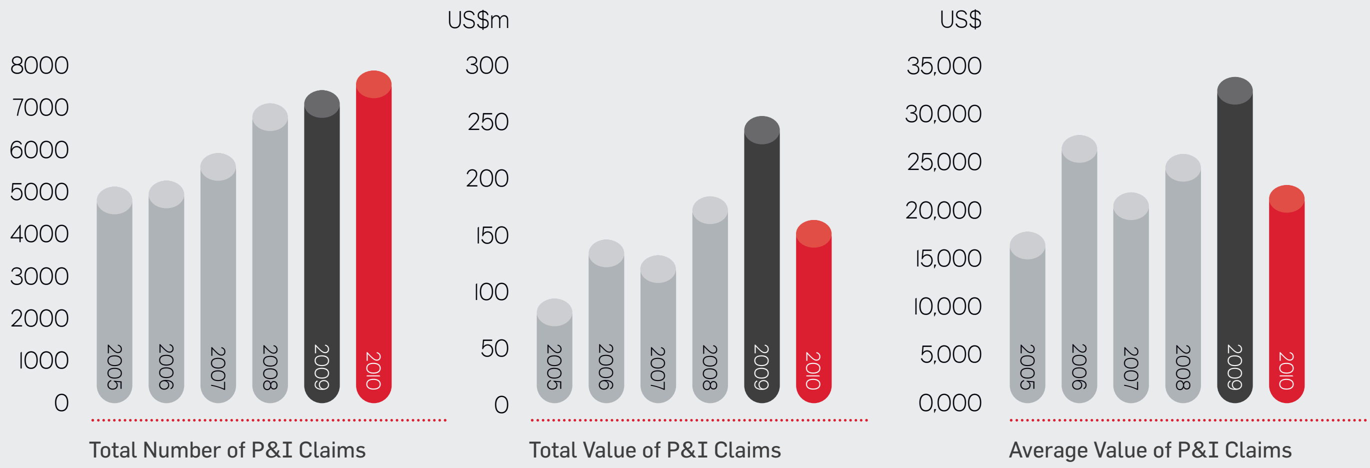
Renewal 20 February 2011

Over the past year, the membership has grown significantly and owned tonnage reached 105 million GT at the 20 February renewal, representing an increase of approximately 20%. The chartered entries have steadily grown to stand at 45 million GT, resulting in a total entry of 150 million GT.

We are always encouraged by the level of organic growth and welcomed additional tonnage from our loyal Members (which accounted for 85% of tonnage growth), in addition to welcoming a number of new Members to the Club.

Once again, tonnage was not renewed as a consequence of UN sanctions against Iran, which saw our remaining entry from National Iranian Tanker Company (NITC) cease at renewal.

Although there has been a period of growth in total owned entered tonnage, the geographical spread of business and the ship type distribution remains in a similar position. Tankers continue to represent the largest proportion (38%) of ships entered, but this year saw an increase in bulk carriers entered, representing development from existing Members. Having previously been hit hard by the global financial crisis, the container sector recovered well during the year and very few container ships remain laid up compared to 2009.



Although the Club continues to focus on conventional blue water tonnage, it is part of our long-term strategic aim to expand the product range and progress into the offshore and specialist operations market.

Despite the challenging environment, we have continued to make significant progress towards our strategic aims and with a satisfying underwriting result and positive tonnage growth, we look to maintain and improve our position going forward.

P&I CLAIMS

Overall, the claims position for the policy year to February 2011 showed significant improvement, with retained claims of US$161.9 million (7,830 claims) compared to US$253.5 million (7,377 claims) in 2009. The average value of claims was US$20,678, down from US$34,373. The Club has grown over the past year and whilst the total frequency of claims in 2010 is slightly higher than in 2009, the total values are nevertheless significantly lower.

The frequency and value of people claims (illness and injury) has risen slightly compared to 2009 and cargo claims have remained the same. There has been an increase in the number of admiralty claims (collision, dock damage, fixed and floating objects), however, the estimated claims values are significantly lower compared to 2009, highlighting the volatile nature of such claims. In terms of numbers of claims by ship type, bulk carriers (29%), container ships (29%) and tankers (18.7%) represent the three biggest groups.

In 2010 we experienced some improvement in the number of high value claims, with 54 claims in excess of US$500,000. This represents only 0.69% of the total number of claims, with an estimated value of US$59,867,740 (37% of the total value of all claims). At the same point last year, we had 60 claims in excess of US$500,000 with a value of US$186,601,225, representing 65.6% of the total value. Approximately 33% of these large claims result from ship handling, navigational, mooring and pilot errors. The balance relates to a number of factors, the most common of which are problems with cargo handling, stowage and mechanical and engineering problems.

BUSINESS & OPERATIONAL OVERVIEW (CONTINUED)

Compared to the unexpected spike (five claims) in 2009, North had no Pool claims in 2010. Although favourable, it demonstrates that the occurrence of very large P&I claims are random in nature.

The majority of the most expensive incidents continue to be admiralty claims and very similar incidents can vary considerably in terms of cost. Navigational errors, poor ship handling, bridge team management and pilot and tug problems continue to figure significantly in our claims experience. Mechanical and equipment failures are now also figuring more prominently.

Last year the Club reported on the problems created by the diminishing availability of suitably experienced personnel, not only on board vessels, but also to train, supervise and manage seafarers. These problems are unlikely to be resolved in the near future and we believe they will continue to significantly impact on the total cost of claims. The Club will continue to work with Members in order to assist with the avoidance of such claims.

FD&D CLAIMS

Although it is now two years since the economic downturn, its effects are still being felt by the Club's FD&D Class despite there having been some signs of recovery during 2009. Whilst the total number of ships entered in the Class (on a pro rata basis) increased by some 12% over the year, the total number of claims and general enquiries increased by 20% to 3,678, just short of the high point of 3,703 in the 2008 policy year. Although there are of course new issues that arise from year to year which account for many of these claims and enquiries, there were nevertheless many that were due simply to the continuing economic uncertainty, patchy recovery in some markets and some of the longer tail effects of the credit crunch.

Fallout from the market crash of 2008 also continues in that by 2010, the FD&D Class had recorded the three most expensive cases it has ever faced, taking the total spend above US$1 million on each one. All of these, and a number of other significant continuing cases, relate to the failure of contracts of affreightment and multiple charters entered into when the markets were at their pre-crash height.

North's experience and good working relations with authorities in the US and the UK will stand us in good stead and enable us to assist Members to deal with the impact of sanctions.

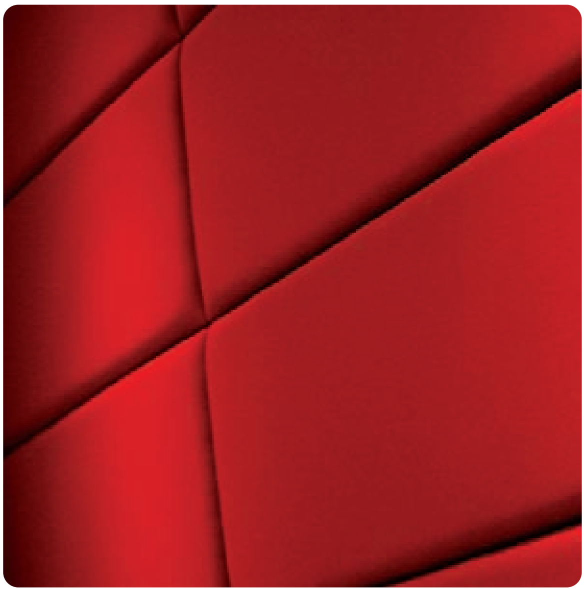
One particular effect of the continuing problems caused by the market fall has been the financial difficulties of a number of operators. One of the most visible has been Korea Line who went into rehabilitation proceedings during the year.

Liquefying cargoes, particularly materials such as iron and nickel ore shipped from Asia, continue to be an issue. The FD&D Department has been advising Members on whether such cargoes presented for loading are contractual cargoes or whether they can and should be rejected. The problem with such cargoes has, if anything, been exacerbated by the coming into force of the IMSBC Code (International Maritime Solid Bulk Cargoes Code). The Code has not only highlighted the physical problems of carriage, but also the question whether shipowners are in fact able to comply with the regulatory regime.

Piracy, particularly in the Gulf of Aden, has also continued to be a major problem. Advice has been given to Members on whether they are obliged to follow Charterers' instructions to send ships through the region and on suitable protective clauses for inclusion in charterparties and other contracts.

A further key component over the last year has been the increasing willingness of individuals or groups of countries, or the international community as a whole, to use economic and legal sanctions against what may be regarded as "rogue" states to achieve political ends. Increasingly, these sanctions have been specifically targeted at shipping and have had a direct effect on insurers, including North. A significant amount of time has been devoted to negotiations with the relevant authorities and advising Members on, and assisting them with, the impact of the various measures introduced. Because of the apparent success of sanctions, both at national and international levels, it is likely that we will see sanctions being wielded again to address other political tensions. The experience gained by North in dealing with the issues raised by sanctions and the good working relations established, not least, with the authorities in the UK and the US, will stand us in good stead and enable us to assist Members to deal with the impact of further sanctions in the future.

BUSINESS & OPERATIONAL OVERVIEW (CONTINUED)



LOSS PREVENTION

Support for Members continues to be provided through the Club's loss prevention initiatives, a highly valued service. The aim is to provide general loss prevention information to the membership as a whole as well as direct support for individual Members.

The Loss Prevention Working Party, which comprises representatives from our Members, as well as North's staff, meets regulary to consider the claims prevention issues facing the shipping industry and to identify the main areas of loss prevention focus.

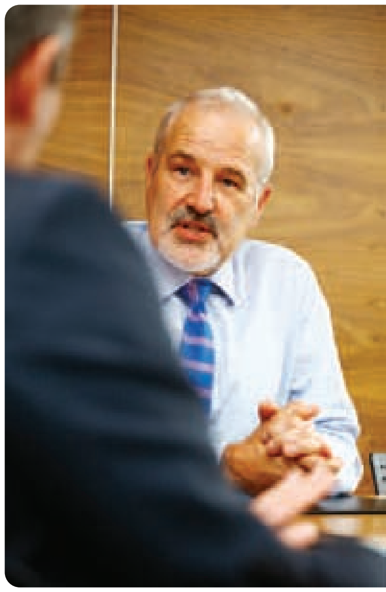
The key to identifying topics for discussion and providing advice to Members is knowledge of claims trends affecting the industry and the Club. This year saw a particular focus on claims causation in respect of people claims (crew illness, third party injuries and stowaways), which have accounted for a significant proportion of claims over the past few years. One area where Members can take a very proactive role is to reduce illness claims by carrying out proper pre-employment medicals of potential employees. The Club is promoting increased utilisation of its pre-employment medical schemes in both the Philippines and the Ukraine.

Cargo claims also account for a significant proportion of claims. Recent trends in cargo claims include those relating to the carriage of bulk cargoes subject to liquefaction and the carriage of nickel ore cargoes. Guidance has been issued to Members relating to the introduction of the new mandatory International Maritime Solid Bulk Cargoes Code and its effect on the safe shipment of iron ore from Indian ports and the carriage of nickel ore cargoes from both Indonesia and the Philippines.

Admiralty claims, including collisions, damage to property, pollution and general average claims, continue to be addressed and providing information and assistance to Members for their ships officers' training programmes is a key element of the Club's loss prevention programme.

There are a range of issues that are currently having an impact on the industry, either in general terms or in relation to specific cargoes, ship types or trades.

Recent trends in cargo claims include those relating to the carriage of bulk cargoes subject to liquefaction and the carriage of nickel ore cargoes.



Of particular note are the Manila amendments to the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), sanctions imposed on Iran, punitive drug laws that affect innocent seafarers on ships in Venezuela and new pollution regulations in China. The Club provides information about these and many other topics and has provided regular updates and information about the ongoing piracy situation in the Gulf of Aden and Indian Ocean and more recently in 2011, the effect of the nuclear radiation situation in Japan.

Bespoke seminars and workshops are also provided for Members and almost 100 seminars were hosted in 2010, with participants including both seafarers and operations teams.

The Club places a high emphasis on identifying Members with significant potential claims risks and working with them to reduce this. Sitting alongside the loss prevention services is the Club's survey function, which uses a risk-based approach to identify and survey individual ships that may present an increased risk.

Looking forward, there are a number of key issues likely to impact upon shipowners and the future activities of the Loss Prevention Department. These issues include the continued introduction of electronic charts and their effect on safe navigation, the introduction of the Maritime Labour Convention and inclusion of its requirements in port state control inspections, as well as the effect of ballast water treatment and lifeboat hook safety on the construction and equipment of ships.

INDUSTRY ISSUES

There have been a number of issues affecting the industry this year, namely piracy, Iranian sanctions and the ongoing European Commission investigation of the International Group of P&I Clubs, announced in August 2010. The Club has taken steps to respond to these issues.

PIRACY

Unfortunately the overall problem of piracy in the Gulf of Aden, Horn of Africa and Indian Ocean is getting worse, not better. Since 2008, the IMB Piracy Reporting Centre has recorded 149 hijacked vessels, 76 of which were entered with International Group Clubs. Over 2,763 crew members have been taken and held hostage and five seafarers have lost their lives. The average cost of ransoms has increased significantly from approximately US$600,000 in 2008 to more than US$5 million in 2010, with a reported figure of US$13.5 million paid to release an unidentified vessel in April 2011.

The average period of detention has also risen significantly from around 55 days in 2008, to more than 200 in late 2010. Overall, the total cost of maritime piracy on the international economy, according to data from Ocean's Beyond Piracy Report (December 2010), is estimated to be somewhere between US$7 – US$12 billion per year.

Counter piracy measures being adopted by shipowners and the naval security forces patrolling the region have been initially effective, but pirates have adapted and countered them with more sophisticated attack capabilities. The capture of merchant vessels for use as mother ships has not only enabled pirates to continue to operate during the monsoon season, but also provides more effective platforms for pirates launching attacks on merchant vessels. There are reports of increasing sophistication in the military equipment used by pirates and, in view of the very high reward to risk ratio of pirate activity in the region, such activity is likely to continue to escalate for the foreseeable future. It is also likely that the recently noted increase in the levels of threats of, and use of, physical violence against hijacked crews is also likely to escalate as the stakes, notably the increased level of ransom demands and correspondingly greater ransom payments, become higher.

The International Group is actively engaged and participates in state and industry initiatives relating to piracy at all levels.

Whilst the task of addressing the operational aspects arising out of the piracy threat is primarily led by the shipowner associations, the International Group in its representative capacity is actively engaged and participates in state and industry initiatives at all levels. At individual Group Club level, the Managers have experienced claims for personal injury and loss of life, medical expenses, personal effects, trauma counselling and for damage to and loss of cargo.

In addition, the clubs have been monitoring closely the increased use of guards (armed and unarmed) by shipowners in the Gulf of Aden. During the course of this year a significant number of these contracts have been reviewed by the Club to ensure that their provisions are compatible with Club cover. This is a developing area and it is true to say that the ramifications arising out of the use of force by private security contractors are not yet fully understood.

Some commentators have also suggested that the Group Clubs should assume a greater share of the burden of paying ransoms. The Clubs have resisted such calls for two reasons. Firstly, it runs contrary to the established legal principles for the allocation of such costs between parties to the venture. Secondly, if the cost of such ransoms was borne in full by the shipowners and their clubs there would be a significant additional cost to shipowners which would have to be recouped through premium.

The real solution to this problem is likely to be political rather than military. Whilst the rules of law remain absent from Somalia, the criminal gangs responsible for the majority of the attacks will continue to operate.

INDUSTRY ISSUES (CONTINUED)

IRANIAN SANCTIONS

Trade sanctions are at the forefront of modern diplomacy, putting international pressure on regimes and countries seen to be acting unacceptably. The international community has used sanctions to punish and encourage states to its will for many years. Recently we have seen multilateral and bilateral sanctions imposed against the states of Cuba, Libya, and Yugoslavia and before that South Africa. By and large shipping, trade and their associated industries have managed the challenges presented by sanctions in the past – so what has been different about the range of measures adopted during the course of 2010 which targeted Iran?

For the first time the sanctions directed towards Iran criminalise not just the party trading in breach of those sanctions, but also those who support the sanctions breaker – its financiers, brokers and insurers.

As such the US, UK and EU regulations have had a serious effect on the Club's ability to handle claims arising in Iran and/or from Iranian claimants and have modified the usual extent of Club cover. Since June 2010 the shipping and financial services industries have been doing their best to distance themselves from anything concerning Iran. In January this year the Club introduced three new rule changes specifically to deal with the effect of sanctions. It is not just the individual Group Clubs adopting such measures, the Pooling Agreement to which all International Group Clubs are party was amended for the 2011 policy year to incorporate an exclusion for claims that are not recoverable from the Pool by operation of a sanction.

North has responded by issuing clear guidance on the intended scope of such sanctions and it appears that many shipowners are choosing not to trade with Iran and, where possible, inserting a sanctions clause in any new charterparties.

In relation to the aspects of the International Group's arrangements which the EC is reviewing, there have been no relevant or material changes.

EUROPEAN COMMISSION INVESTIGATION OF THE INTERNATIONAL GROUP

Following the expiry of the second ten year exemption for the International Group Agreement (IGA), the European Commission announced in August 2010 that it will be carrying out a review and making inquiries into certain aspects of the Group's claims-sharing and reinsurance arrangements. It is not open to the Group to seek a further individual exemption for the IGA following procedural reforms to the competition law rules in 2004. An exemption now applies "automatically" to any agreement that meets the criteria of Article 101(3) of the Treaty on the Functioning of the European Union, without the need for notification to, or decision by, the Commission. The Commission has informed the International Group that this review is not prompted by a complaint about the Group's arrangements. It is normal practice for the European Commission to review the position on expiry of an individual exemption.

In relation to the aspects of the International Group's arrangements which the European Commission is reviewing, there have been no relevant or material changes to the arrangements or in the market for P&I cover since those arrangements were approved in the Commission's 1999 decision, with which the Group has continued to comply. The International Group therefore takes the view that the Commission's careful analysis of the Group's arrangements as set out in the 1999 decision remains valid. Pending the outcome of the Commission's review, the Group's arrangements remain unaffected. The Group provides the Commission with reports on its arrangements and the market each year and is now working closely with the Commission in its review.

COMBINED FINANCIAL STATEMENTS

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

20 FEBRUARY 2011

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 above follow on pages 21 to 44. 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 2011

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 2011 ("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 2011.

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 2011. The auditor's report on the statutory consolidated financial statements of NEPIA was issued by ourselves on 20 May 2011 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 2011. The auditor's report on the statutory financial statements of NoE(Bermuda) was issued by ourselves on 20 May 2011 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.

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 2011.

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
20 May 2011

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)

20 FEBRUARY 2011

	Note	2011	2010
ASSETS			
Intangible assets		2,844	1,827
Property, plant and equipment		24,058	13,807
Reinsurance contracts	5	198,042	305,801
Financial assets			
Equity securities – at fair value through income	3	52	50
Debt securities – at fair value through income	3	263,722	229,485
Absolute return fund – at fair value through income	3	77,487	15,991
Loans and receivables including insurance and reinsurance receivables		14,959	16,673
Derivative financial instruments		–	386
Retirement benefit asset		19,603	18,935
Current tax asset		221	274
Cash and cash equivalents	4	429,166	425,765
Total assets		1,030,154	1,028,994
ACCUMULATED SURPLUS			
Income and expenditure account		53,007	(16,325)
Contingency funds	13	253,437	251,159
Revaluation reserve		5,990	5,428
Total accumulated surplus		312,434	240,262
LIABILITIES			
Insurance contracts	5	696,008	772,236
Derivative financial instruments		997	–
Reinsurance payables		11,953	11,929
Trade and other payables		8,762	4,567
Total liabilities		717,720	788,732
Total accumulated surplus and liabilities		1,030,154	1,028,994

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)

20 FEBRUARY 2011

	Note	2011	2010
Insurance premium revenue		314,243	285,051
Insurance premium ceded to reinsurers	6	(59,738)	(47,619)
		254,505	237,432
Investment income		331	1,243
Net fair value gains at fair value through income	7	15,640	3,064
Net income		**270,476**	**241,739**
Insurance claims and loss adjustment expenses	8	(66,257)	(340,915)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	(89,699)	150,446
Net insurance claims		(155,956)	(190,469)
Expenses for the acquisition of insurance and investment contracts	10	(24,278)	(22,282)
Expenses for marketing and administration	11	(19,443)	(13,529)
Expenses for asset management services rendered		(963)	(993)
Operating expenses		(44,684)	(36,804)
Total expenses		**(200,640)**	**(227,273)**
Results of operating activities		69,836	14,466
Finance income	12	2,285	13,635
Surplus before tax		72,121	28,101
Tax expense		(511)	273
Surplus for the year		**71,610**	**28,374**

COMBINED STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
Foreign exchange gain on revaluation of land and buildings	562	776
Surplus for the year	71,610	28,374
	72,172	29,150

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 2011

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 2011 and 20 February 2010. 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
IAS 24R Related Party Disclosures – Periods commencing on or after 1 January 2011
IFRIC 14 Prepayments of a Minimum Funding Requirement – Periods commencing on or after 1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – Periods commencing on or after 1 July 2010

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.

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Combined Financial Statements
(All amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2011

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 2011 (2010 – nil).

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

	2011			2010
United Kingdom	£0.617	=	US$1	(£ 0.649)
Euro	€0.733	=	US$1	(€ 0.740)
Japan	YEN83.35	=	US$1	(YEN 91.99)

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2. SEGMENTAL ANALYSIS BY CLASS

The segment financial positions for the year ended 20 February 2011 are shown below:

Statement of financial position

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets		2,844	–	–	2,844
Property, plant and equipment		24,058	–	–	24,058
Reinsurance contracts	5	187,227	10,815	–	198,042
Financial assets					
Equity securities:					
– at fair value through income	3	52	–	–	52
Debt securities:					
– at fair value through income	3	260,537	–	3,185	263,722
Absolute return fund	3	77,487	–	–	77,487
Loans and receivables including insurance and reinsurance receivables		13,067	1,571	321	14,959
Retirement benefit asset		19,603	–	–	19,603
Current tax asset		221	–	–	221
Cash and cash equivalents	4	382,499	45,008	1,659	429,166
Total assets		**967,595**	**57,394**	**5,165**	**1,030,154**
ACCUMULATED SURPLUS					
Income and expenditure account		60,569	(12,544)	4,982	53,007
Contingency funds	13	234,330	19,107	–	253,437
Revaluation reserve		5,990	–	–	5,990
Total accumulated surplus		**300,889**	**6,563**	**4,982**	**312,434**
LIABILITIES					
Insurance contracts	5	648,258	47,750	–	696,008
Derivative financial instruments		997	–	–	997
Reinsurance payables		10,876	1,065	12	11,953
Trade and other payables		6,575	2,016	171	8,762
Total liabilities		**666,706**	**50,831**	**183**	**717,720**
Total accumulated surplus and liabilities		**967,595**	**57,394**	**5,165**	**1,030,154**

(All amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS (CONTINUED)

The segment results for the year ended 20 February 2011 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		294,969	18,557	717	314,243
Insurance premium ceded to reinsurers	6	(58,115)	(1,133)	(490)	(59,738)
		236,854	17,424	227	254,505
Investment income		222	108	1	331
Net fair value gains at fair value through income	7	15,635	–	5	15,640
Net income		**252,711**	**17,532**	**233**	**270,476**
Insurance claims and loss adjustment expenses	8	(47,628)	(18,629)	–	(66,257)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	(92,454)	2,755	–	(89,699)
Net insurance claims		(140,082)	(15,874)	–	(155,956)
Expenses for the acquisition of insurance and investment contracts	10	(23,185)	(1,091)	(2)	(24,278)
Expenses for marketing and administration	11	(15,740)	(3,573)	(130)	(19,443)
Expenses for asset management services rendered		(961)	(1)	(1)	(963)
Operating expenses		(39,886)	(4,665)	(133)	(44,684)
Total expenses		**(179,968)**	**(20,539)**	**(133)**	**(200,640)**
Results of operating activities		72,743	(3,007)	100	69,836
Finance income / (expenditure)	12	1,750	537	(2)	2,285
Surplus / (deficit) before tax		74,493	(2,470)	98	72,121
Tax expense		(490)	(21)	–	(511)
Surplus / (deficit) for the year		**74,003**	**(2,491)**	**98**	**71,610**

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
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2. SEGMENTAL ANALYSIS BY CLASS (CONTINUED)

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 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)
Operating expenses		(32,698)	(3,969)	(137)	(36,804)
Total 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	676	(75)	28,101
Tax expense		232	41	–	273
Surplus / (deficit) for the year		**27,732**	**717**	**(75)**	**28,374**

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3. FAIR VALUE SECURITIES

	At 20 February 2011			
	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	260,537	–	3,185	263,722
Absolute return fund – at fair value through income	77,487	–	–	77,487
	338,076	**–**	**3,185**	**341,261**
Cost				
Equity securities – at fair value through income	1	–	–	1
Debt securities – at fair value through income	263,230	–	3,213	266,443
Absolute return fund – at fair value through income	73,174	–	–	73,174
	336,405	**–**	**3,213**	**339,618**

	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**

4. CASH AND CASH EQUIVALENTS

	At 20 February 2011			
	P&I	FD&D	War Risks	Total
Cash at bank and in hand	20,504	996	753	22,253
Short-term bank deposits	25,000	–	–	25,000
Money market funds	16,167	44,012	–	60,179
Short-term maturity bonds	320,828	–	906	321,734
	382,499	**45,008**	**1,659**	**429,166**

	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**

(All amounts in US Dollar thousands unless otherwise stated)

5. INSURANCE CONTRACTS

Policy year analysis

	Closed years	2008	Open policy years 2009	2010	Handling reserve	Total
ALL CLASSES						
At 20 February 2011						
Gross outstanding claims	224,522	99,178	158,646	186,762	26,900	696,008
Reinsurance amount	61,450	44,761	67,036	24,795	–	198,042
Net outstanding claims	163,072	54,417	91,610	161,967	26,900	497,966
At 20 February 2010						
Gross outstanding claims	303,279	168,508	277,049	–	23,400	772,236
Reinsurance amount	98,747	86,851	120,203	–	–	305,801
Net outstanding claims	204,532	81,657	156,846	–	23,400	466,435

	Closed years	2008	Open policy years 2009	2010	Handling reserve	Total
P&I CLASS						
At 20 February 2011						
Gross outstanding claims						
Members	194,018	87,508	131,855	140,659	20,700	574,740
Pooling agreement	21,678	767	17,909	33,164	–	73,518
	215,696	88,275	149,764	173,823	20,700	648,258
Reinsurance amount						
Recoveries due under the pooling agreement	23,874	–	44,428	–	–	68,302
Recoveries due from reinsurers	37,576	36,484	20,926	23,939	–	118,925
	61,450	36,484	65,354	23,939	–	187,227
Net outstanding claims	154,246	51,791	84,410	149,884	20,700	461,031
At 20 February 2010						
Gross outstanding claims	292,268	156,180	265,495	–	17,600	731,543
Reinsurance amount	98,747	80,043	118,951	–	–	297,741
Net outstanding claims	193,521	76,137	146,544	–	17,600	433,802

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5. INSURANCE CONTRACTS (CONTINUED)

	Closed years	Open policy years 2008	2009	2010	Handling reserve	Total
FD&D CLASS						
At 20 February 2011						
Gross outstanding claims	8,826	10,903	8,882	12,939	6,200	47,750
Reinsurance amount						
Recoveries due from reinsurers	–	8,277	1,682	856	–	10,815
	–	8,277	1,682	856	–	10,815
Net outstanding claims	**8,826**	**2,626**	**7,200**	**12,083**	**6,200**	**36,935**
At 20 February 2010						
Gross outstanding claims	11,011	12,328	11,554	–	5,800	40,693
Reinsurance amount	–	6,808	1,252	–	–	8,060
Net outstanding claims	**11,011**	**5,520**	**10,302**	**–**	**5,800**	**32,633**

WAR RISKS CLASS

There were no outstanding claims at 20 February 2011 (20 February 2010 – nil).

6. INSURANCE PREMIUM CEDED TO REINSURERS

	Year ended 20 February 2011 P&I	FD&D	War Risks	Total
Market	25,625	1,133	370	27,128
International Group	32,490	–	–	32,490
War Risks Group	–	–	120	120
	58,115	**1,133**	**490**	**59,738**

	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**

(All amounts in US Dollar thousands unless otherwise stated)

7. NET FAIR VALUE GAINS AT FAIR VALUE THROUGH INCOME

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	9,386	–	56	9,442
Net realised gains	4,452	–	(10)	4,442
Net movement on unrealised gains	1,796	–	(41)	1,755
	15,634	–	5	15,639
Equities				
Net movement on unrealised losses	1	–	–	1
	1	–	–	1
Total	15,635	–	5	15,640

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

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8. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	107,637	7,913	–	115,550
Pooling agreement	9,207	–	–	9,207
Claims handling costs	14,069	3,659	–	17,728
	130,913	**11,572**	**–**	**142,485**
Movement in gross outstanding claims				
Members' claims	(82,943)	7,057	–	(75,886)
Pooling agreement	(342)	–	–	(342)
	(83,285)	**7,057**	**–**	**(76,228)**
Total gross claims	**47,628**	**18,629**	**–**	**66,257**

	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**

(All amounts in US Dollar thousands unless otherwise stated)

9. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES RECOVERED FROM REINSURERS

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	7,258	–	–	7,258
Claims recoverable under the pooling agreement	10,803	–	–	10,803
	18,061	–	–	18,061
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	(91,528)	2,755	–	(88,773)
Recoveries due under the pooling agreement	(18,987)	–	–	(18,987)
	(110,515)	2,755	–	(107,760)
Total	(92,454)	2,755	–	(89,699)

	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

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10. EXPENSES FOR THE ACQUISITION OF INSURANCE AND INVESTMENT CONTRACTS

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Brokerage	18,217	1,091	2	19,310
Acquisition costs	4,968	–	–	4,968
	23,185	**1,091**	**2**	**24,278**

	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**

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 2011. The Ratio of 11.9% (2010 – 11.4%) 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 2011			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	36,977	7,232	130	44,339
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(2,200)	–	–	(2,200)
	34,777	7,232	130	42,139
Acquisition costs	(4,968)	–	–	(4,968)
Claims handling costs	(14,069)	(3,659)	–	(17,728)
	15,740	**3,573**	**130**	**19,443**

	Year ended 20 February 2010			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	30,913	6,556	117	37,586
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(2,160)	–	–	(2,160)
	28,753	6,556	117	35,426
Acquisition costs	(5,209)	–	–	(5,209)
Claims handling costs	(13,248)	(3,440)	–	(16,688)
	10,296	**3,116**	**117**	**13,529**

(All amounts in US Dollar thousands unless otherwise stated)

12. FINANCE INCOME

	Year ended 20 February 2011			
	P&I	FD&D	War Risks	Total
Foreign exchange income on investments	374	511	–	885
Other	1,376	26	(2)	1,400
	1,750	**537**	**(2)**	**2,285**

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

13. CONTINGENCY FUNDS

Protecting and Indemnity Class

	2011	2011	2010	2010
Balance at 20 February 2010		232,649		233,506
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment losses and income	(11,393)		(10,150)	
Surplus transferred from closed policy years	13,074		9,293	
		1,681		(857)
Balance at 20 February 2011		**234,330**		**232,649**

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

Freight, Demurrage & Defence Class

	2011	2011	2010	2010
Balance at 20 February 2010		18,510		19,554
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment losses and income	(309)		999	
Surplus / (deficit) transferred from closed policy years	906		(2,043)	
		597		(1,044)
Balance at 20 February 2011		**19,107**		**18,510**

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:

	2011	2010
Recoveries due under the pooling agreement	200	247
Recoveries due from other reinsurers	1,522	2,168
	1,722	2,415

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:

	2011	2010
Gross outstanding claims		
Members	(82,943)	140,782
Pooling agreement	(342)	9,128
	(83,285)	149,910
Reinsurers' share		
Recoveries due from reinsurers	91,528	(90,521)
Recoveries due under the pooling agreement	18,986	(46,085)
	110,514	(136,606)
Movement in net outstanding claims	**27,229**	**13,304**

COMBINED P&I CLASS POLICY YEAR STATEMENT

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	Closed years	2008/ 2009	2009/ 2010	2010/ 2011	Claims Handling Reserve	Contingency Funds	Unrealised Losses	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		221,669	250,228	–	–	–	–	471,897
Invoiced in Current Year		278	(980)	276,691	–	–	–	275,989
		221,947	249,248	276,691	–	–	–	747,886
Release Premium		2,539	899	151	–	–	–	3,589
		224,486	250,147	276,842	–	–	–	751,475
Reinsurance Premiums		(40,116)	(46,519)	(59,514)	–	–	–	(146,149)
		184,370	203,628	217,328	–	–	–	605,326
Investment income, gains on sales of investments, and exchange movements		20,609	25,300	30,768	–	95,767	(2,642)	169,802
Transfers		–	–	–	–	141,628	–	141,628
		204,979	228,928	248,096	–	237,395	(2,642)	916,756
Members' & Pool Claims		(95,456)	(96,505)	(24,048)	–	–	–	(216,009)
Expenses & Tax		(30,269)	(29,500)	(36,228)	–	(3,065)	–	(99,062)
Surplus Available on Closed Years	154,245	–	–	–	–	–	–	154,245
Balances Available for Outstanding Claims	154,245	79,254	102,923	187,820	–	234,330	(2,642)	755,930
Outstanding Claims	(215,695)	(88,275)	(149,764)	(173,824)	(20,700)	–	–	(648,258)
Reinsurance Recoveries	61,450	36,484	65,354	23,939	–	–	–	187,227
	(154,245)	(51,791)	(84,410)	(149,885)	(20,700)	–	–	(461,031)
Revaluation Reserve	–	–	–	–	–	–	–	5,990
Surplus / (Deficit) at 20 February 2011	**–**	**27,463**	**18,513**	**37,935**	**(20,700)**	**234,330**	**(2,642)**	**300,889**
Surplus / (Deficit) at 20 February 2010	(4,734)	17,834	(6,380)	–	(17,600)	232,649	(873)	226,324

NOTES TO THE COMBINED P&I CLASS POLICY YEAR STATEMENT

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i. 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 2011.

ii. 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.

iii. Premium is net of brokerage.

iv. Expenses and tax charged to open policy years are as follows:

	2008/2009	2009/2010	2010/2011
General and administrative expenses (Note 11)	27,142	28,753	34,777
Investment expenses	2,273	978	961
Taxation	854	(231)	490
	30,269	**29,500**	**36,228**

v. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.

vi. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.

vii. Future investment income has not been included in the statement and claims have not been discounted.

viii. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability.

ix. The approximate yield of a 10% supplementary call on the open policy years would be: 2008/09 US$18.1 million
2009/10 US$21.3 million
2010/11 US$23.7 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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	Closed years	2008/ 2009	2009/ 2010	2010/ 2011	Claims Handling Reserve	Contingency Funds	Unrealised Gains	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		14,569	15,081	–	–	–	–	29,650
Invoiced in Current Year		(182)	89	17,469	–	–	–	17,376
		14,387	15,170	17,469	–	–	–	47,026
Release Premium		196	80	16	–	–	–	292
		14,583	15,250	17,485	–	–	–	47,318
Reinsurance Premiums		(1,376)	(909)	(1,148)	–	–	–	(3,433)
		13,207	14,341	16,337	–	–	–	43,885
Investment income, gains on sales of investments, and exchange movements		849	881	952	–	4,031	–	6,713
Transfers from closed years		3,500	–	–	–	15,076	–	18,576
		17,556	15,222	17,289	–	19,107	–	69,174
Claims		(9,477)	(4,146)	(1,029)	–	–	–	(14,652)
Expenses & Tax		(6,075)	(6,523)	(7,253)	–	–	–	(19,851)
Surplus Available on Closed Years	8,826	–	–	–	–	–	–	8,826
Balances Available for Outstanding Claims	8,826	2,004	4,553	9,007	–	19,107	–	43,497
Outstanding Claims	(8,826)	(10,903)	(8,882)	(12,939)	(6,200)	–	–	(47,750)
Reinsurance Recoveries	–	8,277	1,683	856	–	–	–	10,816
	(8,826)	(2,626)	(7,199)	(12,083)	(6,200)	–	–	(36,934)
Surplus / (Deficit) at 20 February 2011	**–**	**(622)**	**(2,646)**	**(3,076)**	**(6,200)**	**19,107**	**–**	**6,563**
Surplus / (Deficit) at 20 February 2010	(192)	(346)	(3,118)	–	(5,800)	18,510	–	9,054

NOTES TO THE 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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i. 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 2011.

ii. 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.

iii. Premium is net of brokerage.

iv. Expenses and tax charged to open policy years are as follows:

	2008/2009	2009/2010	2010/2011
General and administrative expenses (Note 11)	5,992	6,556	7,232
Investment expenses	2	8	–
Taxation	81	(41)	21
	6,075	**6,523**	**7,253**

v. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.

vi. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.

vii. Future investment income has not been included in the statement and claims have not been discounted.

viii. 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.

ix. The approximate yield of a 10% supplementary call on the open policy years would be:

2008/09	US$1.0 million
2009/10	US$1.1 million
2010/11	US$1.3 million

NOTES

NOTES

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