



FINANCIAL STATEMENTS

NORTH OF ENGLAND MUTUAL INSURANCE
ASSOCIATION (BERMUDA) LIMITED

2010



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of the Members of **THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION (BERMUDA) LIMITED** (the “Company”) will be held Thursday 28th October 2010 at 11.00 a.m., at Marsh IAS Management Services (Bermuda) Ltd., 44 Church Street, Hamilton, Bermuda for the following purposes:

AGENDA

1. To appoint a chairman of the meeting.
2. Confirmation of Notice.
3. To consider the minutes of the Annual General Meeting held on 29th October 2009.
4. To consider matters arising from the minutes.
5. To receive the financial statements of the Company for the year ended 20th February 2010.
6. To consider the election of Directors as follows:
 - a) Determine number of Directors.
 - b) Consider electing the following as Directors for the ensuing year:
Frank Brown
Patrick Corcoran
Nicholas B. Dill
David Ezekiel
Philip W.J. Fisher
Miljana Macanovic
Cyril E. Rance
Matthias K. Reith
Nicholas Warren
 - c) Authorise the Directors to appoint Alternate Directors.
 - d) Consider fees payable to the Directors.
7. To appoint Auditors until the close of the next Annual General Meeting and determine their remuneration.
8. To consider proposed changes to the Objects of the Company.
9. To consider any other business which may properly come before the meeting.

Date: 15 July 2010

S Davis, Secretary

Statement of Directors’ Responsibilities in Respect of the Financial Statements

The directors have undertaken to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company in accordance with accounting principles generally accepted in the United Kingdom, as applicable to insurance companies. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with principles generally accepted in the United Kingdom as applicable to insurance companies. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NORTH OF ENGLAND MUTUAL INSURANCE ASSOCIATION (BERMUDA) LIMITED

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

We have audited the company's financial statements for the year ended 20 February 2010 which comprise Balance Sheet, Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes 1 to 12. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body. Our audit work has been undertaken so that we might state to the company's members those matters we are required under International Standards on Auditing (UK and Ireland) to state to them in an auditors' report and for no other purpose. To the fullest extent required by the law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom accounting standards.

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland), and to report to you our opinion as to whether the financial statements give a true and fair view in accordance with accounting principles generally accepted in the United Kingdom.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 20 February 2010 and of its surplus for the year then ended in accordance with accounting principles generally accepted in the United Kingdom.

Ernst & Young LLP

1 More London Place
London
SE1 2AF

17 May 2010

BALANCE SHEET

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)
(Expressed in Thousands of United States Dollars)

20 FEBRUARY 2010

	2010			2009
	P&I US\$000	FD&D US\$000	Total US\$000	Total US\$000
ASSETS (Note 3)				
Cash at bank and in hand	349,569	41,420	390,989	370,335
Other financial investments	–	–	–	8,007
Investment income receivable and prepaids	1,570	–	1,570	1,479
Marketable securities - at market value (Note 4)	171,484	–	171,484	159,610
Unrealised gain on forward foreign exchange contracts (Note 4)	283	–	283	–
Due from Broker	2,124	–	2,124	3,429
Due from The North of England P&I Association Limited (Note 6)	72,847	(7,662)	65,185	58,191
	597,877	33,758	631,635	601,051
LIABILITIES				
Reserve for outstanding claims (Note 7)	390,420	29,370	419,790	407,131
Accounts payable	192	5	197	1,257
Unrealised loss on forward foreign exchange contracts (Note 4)	–	–	–	493
Due to broker	–	–	–	4,888
	390,612	29,375	419,987	413,769
NET ASSETS	207,265	4,383	211,648	187,282
Represented by:				
Members' contributions (Note 8)	250	–	250	250
Contingency reserve (Note 9, 10)	190,706	15,427	206,133	208,094
Balance from income and expenditure account (Note 10)	16,309	(11,044)	5,265	(21,062)
	207,265	4,383	211,648	187,282

See accompanying notes to the financial statements

Signed on behalf of the Board on 12 May 2010

C E Rance, Director

N Warren, Director

INCOME AND EXPENDITURE ACCOUNT

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)
(Expressed in Thousands of United States Dollars)

20 FEBRUARY 2010

	2010			2009
	P&I US\$000	FD&D US\$000	Total US\$000	Total US\$000
REINSURANCE OPERATIONS				
Premium calls	162,494	5,531	168,025	148,034
Claims passed	(136,213)	(7,538)	(143,751)	(120,291)
	26,281	(2,007)	24,274	27,743
INVESTMENT RESULTS				
Investment income	4,823	–	4,823	7,120
Realised losses on sale	(3,827)	–	(3,827)	(9,079)
Change in unrealised appreciation/ (depreciation) of marketable securities	2,569	–	2,569	(20,410)
Interest on cash and time deposits	995	157	1,152	3,933
Foreign currency translation adjustment	7,533	1,569	9,102	(29,791)
Investment advisors' fees	(690)	(8)	(698)	(1,526)
	11,403	1,718	13,121	(49,753)
General and administrative expenses	(360)	(10)	(370)	(475)
Surplus / (Deficit) from operations for the year before change in estimated outstanding claims	37,324	(299)	37,025	(22,485)
(Increase) / Decreased in estimated outstanding claims	(11,973)	(686)	(12,659)	5,791
Surplus / (Deficit) for the year	25,351	(985)	24,366	(16,694)
Transfer from contingency reserve (Note 9, 10)	1,021	939	1,960	4,929
(Deficit), beginning of year	(10,063)	(10,998)	(21,061)	(9,297)
Surplus / (Deficit), end of year	16,309	(11,044)	5,265	(21,062)

The Company has no recognised gains or losses other than those included above. All items relate to continuing operations.

See accompanying notes to the financial statements

CASH FLOW STATEMENT

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

20 FEBRUARY 2010

	2010 US\$000	2009 US\$000
Net cash inflow from operating activities	23,522	10,029
Cash flows were invested as follows:		
Capital expenditure and financial investment		
Payments to acquire investments	655,312	645,292
Receipts from sales of investments	(644,437)	(953,505)
	10,875	(308,213)
Increase in cash and other financial investments	12,647	318,242
Net investment of cash flows	23,522	10,029
Movement in opening and closing cash and portfolio investments		
Net investment of cash flows	23,522	10,029
Changes in market value and exchange rate effects	999	(36,207)
Total movement in portfolio investments	24,521	(26,178)
Portfolio investment and cash at beginning of year	537,952	564,130
Portfolio investment and cash at end of year	562,473	537,952
Analysis of cash and portfolio investments:		
Cash at bank and in hand	390,989	370,335
Other financial investments	–	8,007
Marketable securities	171,484	159,610
	562,473	537,952
Reconciliation of net profit for the year to net cash inflow from operating activities:		
Surplus / (Deficit) for the year	24,366	(16,694)
Change in market value and foreign exchange	(999)	36,207
Increase in investment income receivable and prepaids	(91)	(94)
(Decrease) / Increase in unrealised (loss) on forward foreign exchange contracts	(776)	426
(Decrease) / Increase in accounts payable	(1,060)	416
Increase / (Decrease) in reserve for outstanding claims	12,659	(5,791)
Increase in amount due from The North of England P&I Association Limited, net	(6,994)	(1,475)
Increase in due from broker, net	(3,583)	(2,966)
Net cash inflow from operating activities	23,522	10,029

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

20 FEBRUARY 2010

1. GENERAL

The North of England Mutual Insurance Association (Bermuda) Limited, (the "Company") was incorporated under the laws of Bermuda on December 9, 1996 and holds a Class 2 licence under The Insurance Act 1978.

Effective February 20, 1997, the Company assumed, via a Deed of Accession and Notice of Transfer, the Protection and Indemnity ("P&I") and Freight Demurrage and Defence ("FD&D") risks previously reinsured by The North of England P&I Association (Bermuda) Limited ("NOE-B"). The Company agreed to assume the assets and liabilities of NOE-B at that date, as set out in the Deed of Accession and Notice of Transfer, for all policy years up to February 20, 1997. It also agreed, with effect from February 20, 1997, to reinsure 90% of the P&I and FD&D risks of The North of England P&I Association Limited ("NOE"), less a discount of 10% for P&I and 55% for FD&D.

NOE is a United Kingdom incorporated association whose members mutually insure each other, and on whom premium calls are made as required to meet anticipated and known claims. Its members are shipowners who have entered ships for insurance by NOE. The Company has the same members as NOE.

All the business written is derived from the United Kingdom, as the Company's current business is limited to the reinsurance of NOE.

2. BASIS OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom, as applicable to insurance companies. However, as the Company is domiciled in Bermuda, the provisions of the United Kingdom Companies Act 1985 and 2006 have not been applied. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The following accounting policies have been adopted by the Company:

a) Reinsurance premiums and calls

Recorded premium income represents the Company's share of calls for the current year, and adjustments for previous years.

b) Claims and related expenses

Claims and related expenses represent the Company's share for the current year, and include the Association's share of other clubs' pool claims, which are charged to the income and expenditure account on an incurred basis.

Full provision is made for outstanding claims which are based upon the Association's best estimate of the ultimate likely cost of individual claims notified but not paid at the balance sheet date. Provision is also made for claims incurred but not reported (IBNRs) based on statistical methods. Both the individual estimates and the IBNR methodology are reviewed on a regular basis. Although the amounts recorded are based on information currently available, the ultimate liability of the claims provisions may, as a result of subsequent information and events, prove to be less than or in excess of the amounts currently provided. Such changes in estimates are reported in the period in which they are determined. Provision for the cost of claims handling is included within the provision for claims IBNR.

c) Foreign currency translation

Assets and liabilities in foreign currencies are translated into United States dollars at rates of exchange prevailing at the balance sheet date. Foreign currency income and expenditures including reinsurance transactions are translated at the rate prevailing at the transaction date. Foreign exchange adjustments, including unrealised gains and losses on forward foreign exchange contracts, are reflected in the income and expenditure account as they arise.

The foreign currency translation adjustment represents the realised and unrealised gains and losses on forward foreign exchange contracts, unrealised adjustments arising from translation of foreign currency assets and liabilities, and realised foreign exchange gains and losses on disposal of foreign currency denominated marketable securities.

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

20 FEBRUARY 2010

2. BASIS OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Marketable securities

Marketable securities are carried at market value with changes in unrealised gains and losses recorded in the income and expenditure account. Investments in mutual funds are recorded at net asset value as reported by the funds' administrators, which approximate their market value. Gains and losses on disposal of investments are reflected in income when realised.

Futures contracts are marked to market with changes in unrealised gains and losses recorded in the income and expenditure account.

e) Investment income and interest on cash and other financial investments

Investment income from cash at bank and in hand, other financial investments and marketable debt securities is recorded on the accruals basis. Dividends are recorded when declared, which is not significantly different from the accruals basis.

f) Cash at bank and in hand

The Company considers cash in hand and deposits repayable on demand as equivalent to cash.

g) Other financial investments

Other financial investments comprise deposits with credit institutions. These investments are carried at market value.

h) International Financial Reporting Standards ("IFRS")

The Company has considered the adoption of IFRS for its financial presentation but has elected not to do so for this financial year. The effects of IFRS have been reviewed and it should be noted that the following differences would have arisen had IFRS been adopted:

1. Cash at bank and in hand would be re-categorized as Cash and cash equivalents
2. Other financial investments would be re-categorized as Cash and cash equivalents
3. Short term investments of \$390,609 (2009 – \$5,104,709) in Marketable securities would be re-categorized as Cash and cash equivalents

3. COMMITMENT

In accordance with the terms of its reinsurance agreement the Company has agreed to pay on demand any monies owing to NOE and has secured this commitment by a floating charge on all its assets.

20 FEBRUARY 2010

4. MARKETABLE SECURITIES

(i) The cost and market value of marketable securities are as follows:

	February 20, 2010			
	P&I		FD&D	
	Cost US\$000	Market Value US\$000	Cost US\$000	Market Value US\$000
Fixed interest securities	156,992	155,102	–	–
Hedge Funds	15,079	15,991	–	–
Short term investments	391	391	–	–
	172,462	171,484	–	–

	February 20, 2009			
	P&I		FD&D	
	Cost US\$000	Market Value US\$000	Cost US\$000	Market Value US\$000
Fixed interest securities	142,647	140,896	–	–
Hedge Funds	15,009	13,609	–	–
Short term investments	5,105	5,105	–	–
	162,761	159,610	–	–

(ii) Fixed interest securities – maturities

The market value amounts for fixed interest securities held at February 20, 2010 are shown below by contractual maturity. Actual maturity dates may differ from contractual maturity dates because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	2010 US\$000	2009 US\$000
Within one year	2,054	598
From one to five years	81,220	70,654
From five to ten years	55,146	45,077
After more than ten years	16,682	24,567
Members' funds at end of year	155,102	140,896

NOTES TO FINANCIAL STATEMENTS

(CONTINUED)

The North of England Mutual Insurance Association (Bermuda) Limited (Incorporated in Bermuda)

20 FEBRUARY 2010

4. MARKETABLE SECURITIES (CONTINUED)

(iii) All investments in fixed interest securities have a credit rating of "BBB+" or better.

(iv) Foreign exchange contracts outstanding at the year end were as follows:

	Forward foreign exchange contracts	
	2010 US\$000	2009 US\$000
Receivable	201,658	269,865
Payable	(201,375)	(270,358)
Net receivable / (payable)	283	(493)

The Company is exposed to credit loss in the event of non-performance by the other parties to contracts that are in an unrealised gain position. The Company does not anticipate any non-performance.

5. SEGMENTAL REPORTING

All of the company's operations are based in Bermuda.

	2010		2009	
	Net assets US\$000	Net profit US\$000	Net assets US\$000	Net profit US\$000
P&I	207,265	25,351	181,914	(9,796)
FD&D	4,383	(985)	5,368	(6,898)
	211,648	24,366	187,282	(16,694)

6. CEDING COMPANY DEBTOR

In accordance with the terms of the reinsurance agreement with the ceding company, any amounts receivable are due on demand.

7. ESTIMATED OUTSTANDING CLAIMS

Claims are subject to prolonged delay, both as to notification and settlement. Quantification of outstanding claims is based on experience and judgement, however the ultimate cost thereof cannot be ascertained with certainty at the date of the balance sheet. Accordingly, the amount provided for estimated outstanding claims in the financial statements may differ materially from the Company's ultimate liability for claims. Any differences between these estimates and the actual settlement will be recorded in the period in which they become known.

20 FEBRUARY 2010

8. MEMBERS' CONTRIBUTIONS

The amount of \$250,000 represents the payment of the members' initial contribution.

9. CONTINGENCY RESERVE

The contingency reserve has been established in order to maintain call stability and represents the balance on closed policy years. During the year a transfer was made from the contingency reserve of \$1,959,900 (2009 - \$4,929,000).

Policy years are kept open for no longer than four years. Any surplus or deficit at the closure of a policy year is transferred to or from the contingency fund.

10. MOVEMENT IN MEMBERS' FUNDS

	2010 US\$000	2009 US\$000
Members' funds at beginning of year	187,282	203,976
Movement in contingency reserve	(1,960)	(4,929)
Surplus / (Deficit) from income and expenditure account	26,326	(11,765)
Members' funds at end of year	211,648	187,282

11. RELATED PARTY DISCLOSURE

The Company reinsures 90% of NOE's P&I and FD&D risks. The Company and NOE are related parties in so far as they have similar members. All the Company's reinsurance transactions are with NOE.

12. TAXATION

The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 28, 2016. At the present time no such taxes are levied in Bermuda.

