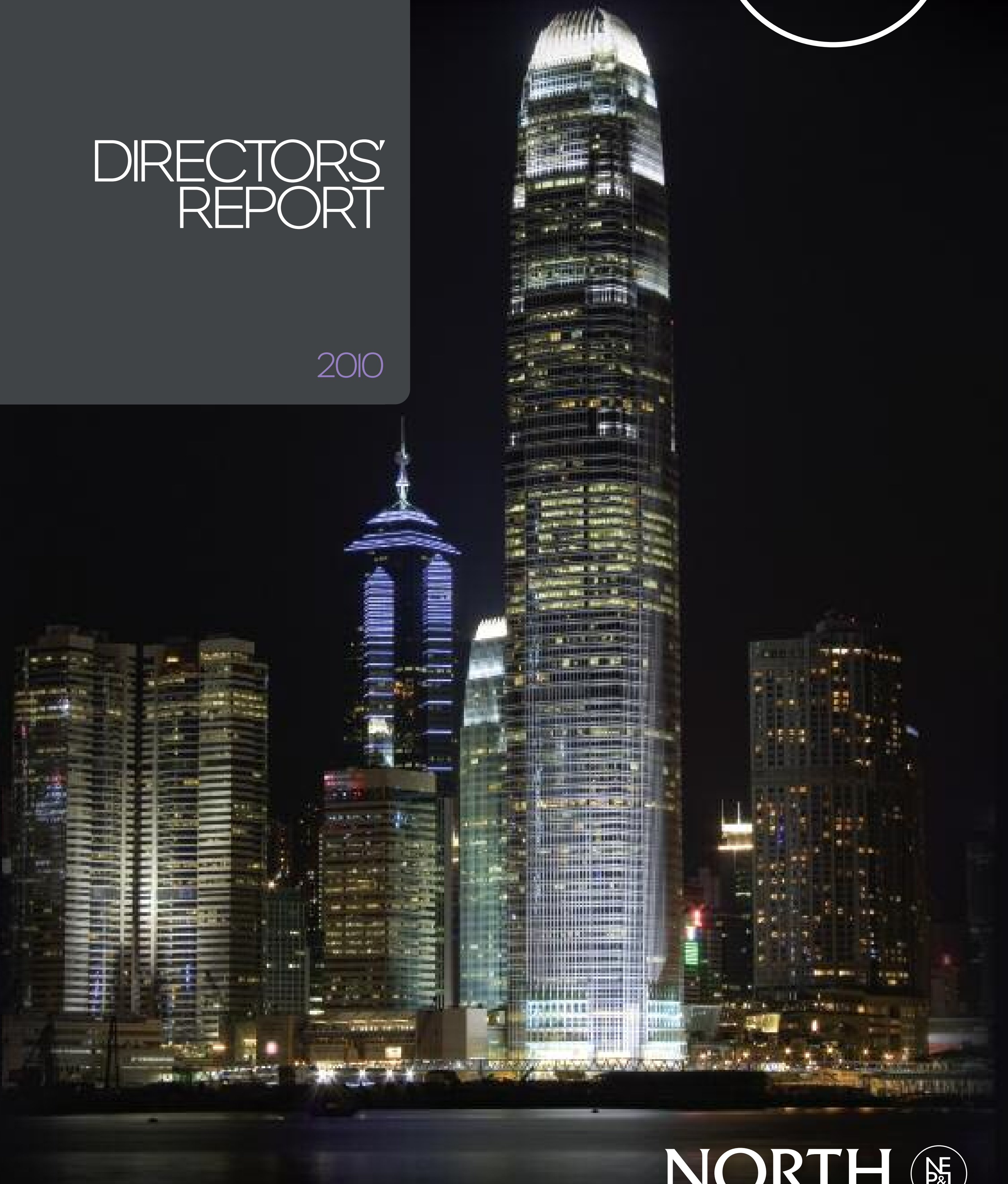
DIRECTORS' REPORT

2010

Celebrating 150 years of North

150



NORTH

SERVICE, STRENGTH, QUALITY

Photography front cover: 'Hong Kong International Finance District photographed at night'.

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

ANNUAL GENERAL MEETING

North of England Protecting & Indemnity Association Limited

20 FEBRUARY 2010

Notice is hereby given that the ANNUAL GENERAL MEETING of the Members of the Association will be held at Jesmond Dene House, Jesmond Dene Road, Newcastle upon Tyne, NE2 2EY, United Kingdom, on 15 October 2010 at 09:30 hours when the following business will be transacted:

1. To receive and consider the reports of the Directors and the Auditors together with the financial statements for the year ended 20 February 2010.
2. To elect Directors.
3. To fix the Directors' remuneration.
4. To re-appoint Auditors and to authorise the Directors to fix their remuneration.
5. Any other business which may be transacted at the Annual General Meeting.

Form of Proxy is enclosed.

By order of the Board

AA Wilson

Secretary
15 September 2010

Registered in London : Limited by Guarantee

Baltic Place, South Shore Road,
Gateshead, Tyne and Wear NE8 3BA UK
Telephone: +44 191 232 5221 Telex: 53634/537316
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Email: general@nepia.com

No. of Company 505456.
VAT Reg. No. 828 5711 10.

DIRECTORS

North of England Protecting & Indemnity Association Limited

20 FEBRUARY 2010

A Engelsman ▲■◆	Chairman
PB Shirke ▲●	Vice-Chairman
W Al Dawood	
MHAK Bakri	
N Bateni	(Resigned 19 October 2009)
A Bergshaven	
I Butorac	
LB Christensen	
JAF Cowderoy ▲*	
RC Eccleston	(Resigned 18 September 2009)
F Gao	
JM de Groot *	
A le Guillard	
PA Jennings	Joint Managing Director
CF Kanellakis ▲●	
PE Kollakis ●	
DR Kurz	
ECM Lim	
C Lui	
H Mohammad	
A Mohanna	
LH Pfeiff ▲*	
SM Polemis *◆	
G Procopiou	
JS Reith ▲◆	
A Schmidt	
JC Severin ▲	
B Sheth	
WL Sinclair	
RB Sumantri ●	
WAC Thomson ▲■◆	
JS Tyrrell ■	
G Westgarth	(Appointed 18 May 2010)
AA Wilson	Joint Managing Director

▲ Member of the Advisory Committee
* Member of the Audit Committee
● Member of the Investment Committee
■ Member of the Nomination Committee
◆ Member of the Remuneration Committee

MANAGEMENT

North Insurance Management Limited
Baltic Place, South Shore Road
Gateshead, Tyne and Wear
NE8 3BA

AUDITORS

Ernst & Young LLP
1 More London Place
London SE1 2AF

BANKERS

Lloyds TSB Bank plc
PO Box 1SL
102 Grey Street
Newcastle upon Tyne
NE99 1SL

Nordea Bank Finland plc
8th Floor, City Place House
55 Basinghall Street
London EC2V 5NB

REPORT OF THE DIRECTORS

North of England Protecting & Indemnity Association Limited

20 FEBRUARY 2010

The Directors have pleasure in presenting their report together with the financial statements of the Association for the year ended 20 February 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Group were the insurance and reinsurance of marine Protecting & Indemnity, Freight, Demurrage & Defence and War Risks on behalf of Members. The Association mainly operates out of its head office on Tyneside but also has branch offices in Greece, Hong Kong and Singapore.

MEMBERSHIP

At 20 February 2010 the owned gross tonnage entered in the Association totalled 87,194,423 (2009 – 73,710,360) and there were 3,187 owned ships (2009 – 2,964).

REVIEW OF BUSINESS ACTIVITIES

The Association's business continues to develop successfully and the Association was in a sound financial position at 20 February 2010.

The Association's key financial and other performance indicators were as follows:

	2010 US$M	2009 US$M	Change %
Gross written premiums	285.1	255.1	+11.8%
Underwriting income / (loss)	(0.1)	1.6	-105.7%
Surplus after tax	4.0	10.9	-63.4%
Free Reserves	28.6	23.8	+20.1%
Combined ratio	100%	97%	+3%
Average number of employees	199	184	+8%

Underwriting (loss) / income is calculated as earned premiums net of reinsurance ceded less claims incurred net of reinsurance recoveries, less acquisition, marketing and administration costs. The combined ratio is calculated as claims incurred, net of reinsurance, plus acquisition, marketing and administration costs as a percentage of net earned premiums.

The increase in the average number of employees is consistent with the development strategy of the Association which produced an increase in gross written premiums of 12%.

The surplus for the year and the proposed transfer to reserves are shown in the following financial statements. The Directors anticipate no significant changes in the Association's future activities.

The principal risks that the Association face are discussed in Note 4.

The Directors consider that the structure of management remuneration does not provide an incentive to misstate the financial results.

REPORT OF THE DIRECTORS

North of England Protecting & Indemnity Association Limited

20 FEBRUARY 2010

DIRECTORS

The Directors of the Association are shown on page 2. At the Annual General Meeting held at Jesmond Dene House, Jesmond Dene Road, Newcastle upon Tyne, NE2 2EY, United Kingdom, on 13 October 2009, all of the Directors who were retiring by rotation were re-elected.

In accordance with article 69, G Westgarth, who was appointed as an additional Director during the year, retires and, being eligible, offers himself for re-election.

The Association maintains insurance policies on behalf of all the Directors against liability arising from negligence, breach of duty and breach of trust in relation to the Association.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each person who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- he or she has taken all the steps that ought to have been taken in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Responsibilities

The Directors are required to prepare accounts for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Company and the Group at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the accounts, on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and the Group's financial position and financial performance; and
- state that the Company and the Group have complied with applicable IFRS, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company and the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The Association's business activities, together with the factors likely to affect its future development, performance and position are set out in the Review of Business Activities report on page 3. The financial position of the Association, its cash flows, liquidity position and borrowing facilities are described in the Financial Report on pages 9 to 51. In addition Note 4 to the consolidated financial statements include the Association's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk. The Association has considerable financial resources together with contracts with a number of Members and suppliers across different geographic areas. Furthermore, the Association is a mutual organisation and can raise supplementary calls from its Members for open policy years. Consequently, the Directors believe that the Association is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have formed a judgement at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

COMMITTEES

The following committees have been established by resolution of the Board of Directors:

Advisory Committee

The Advisory Committee comprises the Chairman, the Vice-Chairman, the past Chairman, the Chairmen of the other Committees and three Directors appointed by the Board. The Committee meets prior to each Board meeting, and as necessary between meetings, and its principal duties are: to receive reports from the Managers on the financial position, and on bad and doubtful debts of the Association; to agree with the Managers the Annual Expenses Budget of the Association and monitor the performance of the Employee Incentive Scheme and Company Pension Scheme; to keep up to date and fully informed about strategic issues and commercial changes affecting the Association and the market in which it operates; to consider proposals from the Managers on new business development ideas with a view to making recommendations to the Board if appropriate; to receive reports from the Managers on the management of Marine Shipping Mutual Insurance Company Limited and on the level of insurance intermediary fee to be paid by that company; to be available to the Managers and to advise and take decisions on matters relating to the management of the Association requiring attention between Board meetings; and to consider such other matters relating to the Association or P&I matters generally upon which the Managers may need guidance with a view to making recommendations to the Board.

Audit Committee

The Audit Committee consists of four Non-executive Directors and meetings are also attended by representatives of the Association's management and staff. The Committee meets not less than twice a year, and its principal duties are: to consider the appointment of the external auditor, the audit fee, and any questions of their resignation or dismissal; to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; to discuss with the external auditor, before the audit commences, the nature and scope of the audit; to review the annual financial statements before submission to the Board; to discuss the results of the interim and final audits and any matters the auditor may wish to discuss; to review the external auditor's management letter and management's response; to receive and review minutes and reports from the Enterprise Risk Management Committee; to review the Company's risk register; in respect of the Company's FSA compliance, to review the measures taken by the Company to establish and maintain systems and controls appropriate to its business and to review the measures taken by the Company to establish and maintain its Individual Capital Assessment; to consider and approve the internal audit plan; to consider the work of internal audit against the plan and to consider the reports of internal audit.

Investment Committee

The Investment Committee consists of four Non-executive Directors and two independent consultants. It meets a minimum of three times a year and its principal duties are: to periodically review the investment strategy of the Association and make recommendations to the Board; to periodically review the reinsurance arrangements, including investment strategy, with North of England Mutual Insurance Association (Bermuda) Limited ["North of England (Bermuda)"] and to provide the Board with recommendations to be considered by North of England (Bermuda); to ensure the adequacy of the custodian arrangements of the Association and North of England (Bermuda); to review and monitor the performance of investment managers, to receive written and personal presentations and report and make recommendations to the Board; and to investigate and make recommendations to the Board regarding the employment of investment managers.

Nomination Committee

The Nomination Committee consists of the Chairman of the Board and two other Non-Executive Directors. Meetings are held not less than once a year and its principal duties are: to review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes; to give full consideration to succession planning for Directors, taking into account the challenges and opportunities facing the Association, and what skills and expertise are therefore needed on the Board in future; to be responsible for identifying and nominating for approval of the Board candidates to fill Board vacancies; to keep under review the leadership needs of the Association, both executive and non-executive, with a view to ensuring the continued ability of the Association to compete effectively in the market place; to consider and if appropriate agree recommendations from the Managing Director(s) with regard to senior management appointments; to review annually the performance of the Board; and to ensure that on appointment to the Board, Non-executive Directors are advised of what is expected of them in terms of committee service and involvement outside Board meetings.

REPORT OF THE DIRECTORS
(CONTINUED)

North of England Protecting & Indemnity Association Limited

20 FEBRUARY 2010

Remuneration Committee

The Remuneration Committee consists of the Chairman of the Board and three other Non-executive Directors, meets not less than once a year and its principal duties are: to determine and agree with the Board the broad policy for the remuneration of the Chairman, Vice Chairman, the Managing Director(s), the Company Secretary and the senior managers; to make recommendations regarding the remuneration of the Chairman, Vice Chairman and the Non-executive Directors; within the terms of the agreed policy, to determine the total individual remuneration package of the Executive Directors; to determine the policy for and scope of the pension arrangements for the Managing Director(s) and Executive Directors; to oversee the operation of the Company's pension scheme; to ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company; to ensure that relevant statutory and regulatory provisions regarding disclosure of remuneration, including pensions, are fulfilled; to be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.

Charitable donations

The Association made charitable donations of £750 (2009 – £2,446). The Association made no political donations (2009 – nil).

Meetings

The Directors met on three occasions during the year and matters considered and reviewed included the following:

- Election of Directors
- Policy year accounts
- Mutual premium
- Reinsurance
- Members' claims
- Renewal and Market reports
- Membership reports
- Audit Committee reports
- Advisory Committee reports
- Investment Committee reports
- Nomination Committee reports
- Directors' Report and Financial Statements
- Branch office reports
- International Group claims co-operation sub-committee
- UNCITRAL Carriage of Goods by Sea Convention
- Policy defences & abandonment of seafarers
- Loss prevention working party
- Errors & Omissions and Directors' & Officers' insurance
- Future strategy
- Expenses budget
- Bad debts
- International Group Agreement – EU Competition Law guidance
- Solvency
- Offshore and specialist operations cover
- International Group of P&I Clubs – reports on activities

North of England Protecting & Indemnity Association Limited

20 FEBRUARY 2010

Protecting & Indemnity Class

It was agreed that the 2006 / 2007 policy year should be closed and amalgamated with the previous closed years. No Supplementary Calls are anticipated for open policy years. Finally a general increase of 5% was agreed for the 2010 / 2011 Mutual Premium.

Freight Demurrage & Defence Class

The Directors representing the FD&D members agreed to close the 2006 / 2007 policy year. No Supplementary Calls are anticipated for open policy years. Finally a general increase of 10% was agreed for the 2010 / 2011 Mutual Premium.

War Risks Class

The Directors representing the War Risks members agreed to close the 2007 / 2008 policy year. No Supplementary Calls are anticipated for open policy years.

On behalf of the Board

A Engelsman

Chairman
18 May 2010

INDEPENDENT AUDITOR'S REPORT

North of England Protecting & Indemnity Association Limited

20 FEBRUARY 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED

We have audited the financial statements of North of England Protecting & Indemnity Association Limited for the year ended 20 February 2010 which comprise the Consolidated and Parent Company Income Statements, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Comprehensive Income and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by 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 explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 20 February 2010 and of the group's and the parent company's surplus for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP
Registered auditor
London
18 May 2010

Notes:

1. The maintenance and integrity of the North of England Protecting & Indemnity Association Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

North of England Protecting & Indemnity Association Limited
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

	Note	2010	2009
ASSETS			
Intangible assets	6	1,827	1,405
Property, plant and equipment	7	13,807	11,940
Reinsurance contracts	11	725,592	574,635
Financial assets			
Equity securities – at fair value through income	8	50	52
Debt securities – at fair value through income	8	74,383	72,696
Loans and receivables including insurance and reinsurance receivables	9	12,978	12,289
Derivative financial instruments		102	–
Retirement benefit asset	29	18,935	15,083
Current tax asset		274	–
Cash and cash equivalents	10	34,385	29,985
Total assets		882,333	718,085
ACCUMULATED SURPLUS			
Income and expenditure account	21	(21,590)	(24,539)
Contingency funds	21	44,776	43,717
Revaluation reserve	21	5,428	4,652
Total accumulated surplus		28,614	23,830
LIABILITIES			
Insurance contracts	11	772,236	619,872
Derivative financial instruments		–	87
Reinsurance payables		77,114	69,501
Trade and other payables	12	4,369	3,547
Current tax liabilities		–	945
Cash and cash equivalents	10	–	303
Total liabilities		853,719	694,255
Total accumulated surplus and liabilities		882,333	718,085

These financial statements were approved by the Board on 18 May 2010.

A Engelsman
Chairman

PB Shirke
Vice-Chairman

CONSOLIDATED INCOME STATEMENT

North of England Protecting & Indemnity Association Limited
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

	Note	2010	2009
Insurance premium revenue		285,051	255,082
Insurance premium ceded to reinsurers		(215,643)	(192,211)
		69,408	62,871
Investment income	13	91	607
Net fair value gains at fair value through income	14	(501)	5,310
Net income		**68,998**	**68,788**
Insurance claims and loss adjustment expenses	15	(340,915)	(167,851)
Insurance claims and loss adjustment expenses recovered from reinsurers	15	306,856	140,125
Net insurance benefits and claims		(34,059)	(27,726)
Expenses for the acquisition of insurance and investment contracts	16	(22,282)	(21,149)
Expenses for marketing and administration	16	(13,159)	(12,401)
Expenses for asset management services rendered	16	(296)	(750)
Expenses		**(69,796)**	**(62,026)**
Results of operating activities		(798)	6,762
Finance income	19	4,533	5,120
Surplus before tax		3,735	11,882
Tax credit / (expense)	20	273	(940)
Surplus for the year		**4,008**	**10,942**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2010	2009
Foreign exchange gain / (loss) on revaluation of land and buildings		776	(3,155)
Surplus for the year		4,008	10,942
		4,784	7,787

CONSOLIDATED STATEMENT OF CASH FLOWS

North of England Protecting & Indemnity Association Limited
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

	Note	2010	2009
OPERATING ACTIVITIES			
Cash generated from operations	28	12,144	20,677
Tax paid		(954)	(501)
Net cash from operating activities		**11,190**	**20,176**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(2,294)	(1,051)
Purchases of intangibles		(1,080)	(936)
Proceeds from sale of property, plant and equipment		121	54
Purchases of bonds at fair value through income		(288,925)	(217,648)
Purchases of equities at fair value through income		–	(1,211)
Sale of bonds at fair value through income		285,691	210,698
Sale of equities at fair value through income		–	1,945
Net cash used in investing activities		(6,487)	(8,149)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		–	–
Net cash used in financing activities		–	–
Net increase in cash and cash equivalents		4,703	12,027
Cash and bank overdrafts at beginning of year		29,682	17,655
Cash and cash equivalents at end of year	10	**34,385**	**29,682**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

North of England Protecting & Indemnity Association Limited
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

	Note	2010	2009
ASSETS			
Intangible assets	6	1,827	1,405
Property, plant and equipment	7	13,807	11,940
Investment in group undertakings		4,577	4,577
Reinsurance contracts	11	745,117	592,334
Financial assets			
Equity securities – at fair value through income	8	50	52
Debt securities – at fair value through income	8	47,548	47,394
Loans and receivables including insurance and reinsurance receivables	9	17,134	11,999
Derivative financial instruments		102	–
Retirement benefit asset	29	18,935	15,083
Current tax asset		274	–
Cash and cash equivalents	10	31,157	28,322
Total assets		880,528	713,106
ACCUMULATED SURPLUS			
Income and expenditure account	21	(23,328)	(29,462)
Contingency funds	21	44,776	43,717
Revaluation reserve	21	5,428	4,652
Total accumulated surplus		26,876	18,907
LIABILITIES			
Insurance contracts	11	772,236	619,872
Derivative financial instruments		–	87
Reinsurance payables		77,114	69,501
Trade and other payables	12	4,302	3,491
Current tax liabilities		–	945
Cash and cash equivalents	10	–	303
Total liabilities		853,652	694,199
Total accumulated surplus and liabilities		880,528	713,106

These financial statements were approved by the Board on 18 May 2010.

A Engelsman
Chairman

PB Shirke
Vice-Chairman

PARENT COMPANY INCOME STATEMENT

North of England Protecting & Indemnity Association Limited
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

	Note	2010	2009
Insurance premium revenue		285,051	255,082
Insurance premium ceded to reinsurers		(226,691)	(200,361)
		58,360	54,721
Investment income	13	91	600
Net fair value gains at fair value through income	14	(921)	4,216
Net income		**57,530**	**59,537**
Insurance claims and loss adjustment expenses	15	(340,915)	(167,851)
Insurance claims and loss adjustment expenses recovered from reinsurers		321,390	144,453
Net insurance benefits and claims		(19,525)	(23,398)
Expenses for the acquisition of insurance and investment contracts	16	(22,282)	(21,149)
Expenses for marketing and administration	16	(13,091)	(12,344)
Expenses for asset management services rendered	16	(244)	(703)
Expenses		**(55,142)**	**(57,594)**
Results of operating activities		2,388	1,943
Finance income	19	4,532	5,120
Surplus before tax		6,920	7,063
Tax credit / (expense)	20	273	(940)
Surplus for the year		**7,193**	**6,123**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
Foreign exchange gain / (loss) on revaluation of land and buildings	776	(3,155)
Surplus for the year	7,193	6,123
	7,969	**2,968**

PARENT COMPANY STATEMENT OF CASH FLOWS

North of England Protecting & Indemnity Association Limited
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

	Note	2010	2009
OPERATING ACTIVITIES			
Cash generated from operations	28	8,689	14,611
Tax paid		(954)	(501)
Net cash from operating activities		**7,735**	**14,110**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(2,294)	(1,051)
Purchases of intangibles		(1,080)	(936)
Proceeds from sale of property, plant and equipment		121	54
Purchases of bonds at fair value through income		(266,333)	(199,471)
Purchases of equities at fair value through income		–	(1,211)
Sale of bonds at fair value through income		264,989	197,665
Sale of equities at fair value through income		–	1,945
Net cash used in investing activities		**(4,597)**	**(3,005)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		–	–
Net cash used in financing activities		**–**	**–**
Net increase in cash and cash equivalents		3,138	11,105
Cash and bank overdrafts at beginning of year		28,019	16,914
Cash and cash equivalents at end of year	10	**31,157**	**28,019**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

North of England Protecting & Indemnity Association Limited
(All Amounts in US Dollar thousands unless otherwise stated)

20 FEBRUARY 2010

1. GENERAL INFORMATION

The North of England P&I Association Limited ("the Association") is a non profit making mutual organisation. The Association is a company limited by guarantee, has no share capital and is registered in the United Kingdom under the Companies Act 1985. No one member controls the Association. The address of the registered office is given on page 1.

The Association's primary business is the provision on a mutual basis of third-party liability or 'protection and indemnity' ("P&I") insurance to shipowners. 'Protection' generally means cover for people and ships whereas 'indemnity' means cover for cargo. The cover provided by this Class of the Association is as set out in the Rules of the Class and provides insurance for a Member against loss, damage, liability or expense incurred by them which arises:

(a) in respect of the Member's interest in an Entered Ship,

(b) out of events occurring during the period of entry of the Ship in the Association, and

(c) in connection with the operation of the Ship.

Approximately 60% of the ships entered in the Association for P&I insurance are also covered by the Association for otherwise uninsured legal costs, known as 'freight, demurrage and defence' (FD&D) insurance. The cover provided by this Class of the Association is as set out in the Rules of the Class and provides insurance for a Member against costs, expenses or liabilities for costs or expenses incurred by them which arise:

(a) in respect of the Member's interest in an Entered Ship;

(b) in relation to any dispute or matter arising during the period of Entry of the Ship in the Association, and;

(c) in connection with the operation, ownership, management or chartering of the Ship.

The FD&D Class is run on a mutual basis similar to the P&I Class, with premiums being pooled and invested to pay claims directly and to buy reinsurance.

The Association also operates a separate War Risks class to provide cover for war and terrorism losses which are generally excluded from normal P&I and hull and machinery policies. However, membership of the class is currently restricted to British flagged or beneficially owned ships. The War Risks cover includes both physical loss and damage to ships as well as third party liability caused by war perils. It also includes compensation for being blocked or trapped in an area due to conflict. The War Risks class also operates on a mutual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

These consolidated and company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted for use in the European Union. The standard definitions of profit and loss have been replaced by the terms surplus and deficit because, as a mutual, the Directors believe this is more relevant terminology.

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

The Association has 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. The Association has applied the amended IAS 19 taking into account amendments to paragraphs 32A, 34, 61 and 121.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

North of England Protecting & Indemnity Association Limited
(All Amounts in US Dollar thousands unless otherwise stated)

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2.1 Basis of presentation (continued)

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

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

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

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

2.2 Consolidation

The consolidated financial statements incorporate the financial statements of the Association and its subsidiaries made up to 20 February each year. Control is achieved where the Association has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that may be subject to risks and returns that are different from those of segments operating in other economic environments. The global nature of the shipping industry in which the Association's members are involved means that risks and returns are similar for shipping operations no matter where the place of management happens to be located.

2.4 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 consolidated financial statements are presented in thousands of United States Dollars, which is the Association's functional currency.

(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 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.

2.5 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.

2.6 Property, plant and equipment

Land and building is comprised of the office occupied by the Association. 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 the Association 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 using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Land	No depreciation charged.
Building	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 asset's 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.

2.7 Investments

Financial assets at fair value through income

The Association classifies its 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 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 Association commits 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 Association has 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 Association does not engage in hedge accounting and changes in the fair value of all derivative instruments are recognised immediately in the Income Statement.

Loans & 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 Association intends to sell in the short term or that it has 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.

Investments in Subsidiaries

In the Company's financial statements, other financial investments in subsidiary undertakings are stated at cost and are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired.

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(CONTINUED)

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2.7 Investments (continued)

Determination of fair value and fair value hierarchy
The following table shows an analysis of financial assets by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value
Equity securities	–	–	50	50
Debt securities	74,383	–	–	74,383
Derivative financial instruments – assets	102	–	–	102
Cash and cash equivalents	34,385	–	–	34,385
	108,870	–	50	108,920

The opening position is shown in the table below:

	Level 1	Level 2	Level 3	Total fair value
Equity securities	–	–	52	52
Debt securities	72,696	–	–	72,696
Cash and cash equivalents	29,985	–	–	29,985
	102,681	–	52	102,733

Level 1 consists of financial assets that are valued according to published quotes in an active market. A financial asset is regarded as quoted in an active market if quoted prices are readily available from a broker, dealer, exchange, pricing service, industry group or regulatory agency. Level 2 assets are similar to Level 1 but the pricing of those assets have not been determined in an active market. Level 3 financial assets are assets for which a value cannot be obtained from observable data.

2.8 Impairment of assets

The Association assesses 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 Association 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.

2.9 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.

2.10 Revenue and expense recognition

Premium income

All elements of revenue arising from insurance contracts and other related services offered by the Association are recognised on an accruals basis in the accounting period in which the contract is related or services are rendered. The Association's policy year runs from noon GMT on any 20 February to noon GMT on the next following 20 February. The Association's financial year is coterminous with its policy year. The significant categories of revenue arising from insurance contracts are as follows:

Mutual Premium

The estimated total premium payable to the Association in relation to an Entered Ship and in respect of any policy year is calculated in accordance with Rules 12 and 13 of the Association and with the terms of insurance agreed from time to time with the Member. The Directors may at any time or times during or after the end of each Policy Year (but not after such Policy Year has been closed in accordance with Rule 42(5)) direct that an Additional Call shall be paid by each Member in respect of Ships entered for such Policy Year of such amount as the Directors in their sole discretion think fit. All Additional Calls so made shall be calculated pro rata to the Mutual Premium (less any returns) in the relevant Policy Year. Additional calls are accounted for, where appropriate, on an accrual basis when the Additional Call has been approved by the Directors of the Association.

If the Directors at any time determine that funds are or may in future be required to pay part of an Overspill Claim (whether incurred by the Association or by any other party to the Pooling Agreement), and the Directors have made a declaration under Rule 42(1) or 42(3) that a Policy Year shall remain open for the purpose of levying an Overspill Call or Calls in respect of that Overspill Claim, the Directors in their discretion, at any time or times after such declaration has been made, may levy one or more Overspill Calls in respect of that Overspill Claim in accordance with Rule 13(4).

Laid Up Returns

When a Ship shall have been laid up in any safe port approved by the Managers for a period of thirty or more consecutive days after finally mooring there the Member may be entitled to an allowance at a rate fixed by the Managers. Provision is made for notifications made post statement of financial position date which refer to laid up periods before the statement of financial position date.

Fixed Premium

The Managers may accept the entry of a Ship on terms that the Member is liable to pay a Fixed Premium.

Time Charter Premium

A Member may be insured against liabilities, together with costs and expenses incidental thereto, which may be incurred by reason of his interest as charterer. Some charterer business is declared for cover on a bordereaux basis. Provision is made for the estimated receivable in respect of business not declared at the statement of financial position date.

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 Association are accrued so as to match the relevant gross claims and associated provisions and reserves upon which the Association is 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. 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. This uncertainty is discussed further in note 3.

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2.10 Revenue and expense recognition (continued)

Interest

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

Acquisition costs

Acquisition costs are expensed in the period to which they relate.

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

The Association 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 the Association, 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, the Association 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.

The defined benefits scheme was closed to new members on 31 March 2006. The Association also operates a defined contribution scheme.

Leases

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

Taxation

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and judgements are continually evaluated and are based on historical information and experience, actuarial analyses, financial modelling and other analytical techniques.

Receivables

Receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised as expense when there is objective evidence that the asset is impaired. In making their assessment of the recoverability of premiums and the likely provision for impairment of member receivables the management take into account the right of retrospective cancellation of cover permitted under the Rules of the Association in the event of non payment of premium. The assessment of impairment also includes an assessment of whole account recoverability based upon historical experience of managing a book of premiums through a number of insurance cycles.

Pensions and other post-retirement benefits

The Association operates a defined benefit pension scheme. The key assumptions used for the actuarial valuation are based on the Directors' best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 29.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Claims Reserves – Members

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims, such as the extent to which claims have occurred but not been reported to the Association, the length of time it takes to finalise a claims award, the extent to which fees will be incurred in the management of a case and the potential outcomes that can arise from being involved in litigation.

Each individual claim reserve is set at an appropriate level by an experienced claims adjuster, based upon their judgement and experience, who is responsible for the 'hands on' management of the case. The case reserves are monitored and agreed by members of the Claims department management team and Members are encouraged to scrutinise and comment upon the reserves held by the Association. Internal file audits are performed on a continuous basis in order to maintain the high standards of claims management and reserving.

The ultimate cost of claims is only known at their conclusion. Provision is made for outstanding claims based upon Management's estimate of the ultimate likely cost of individual claims following advice from the Association's actuary.

Claims Reserves – Pool

The reserves maintained in the books and records of the Association in respect of claims arising for the Association's participation in the Pooling Agreement (see note 4.1) are initially based upon the Association's share of claims reserves established by the notifying Club. In addition, based upon historical evidence and statistical analysis, the Association makes additional provisions for claims incurred but not reported ("IBNR") and claims incurred but not enough reserved ("IBNER"), based upon management's own assessment of the likely ultimate outcome of the Pool.

The additional provision covers the likelihood that

- there are claims that have been incurred but have not been reported to the respective Clubs and hence not notified to the Pool;
- where claims are reserved at a level which does not require notification to the Pool but subsequently that reserve is increased becoming a Pool claim; and
- for uncertainty surrounding the Pool contribution proportion subject to the finalisation of the confirmation of contribution levels based upon tonnage, premium and record, as set out in the Pooling Agreement.

Claims Reserves – Asbestosis

The Association has limited exposure to cases presented as a result of exposure to asbestos. The cases presented primarily relate to exposure to the substance during the 1960's and 1970's. As with all claims presented to the Association a reserve is set at an appropriate level by an experienced claims adjuster on each claim. The Association also provides for IBNR in respect of asbestosis claims based upon actuarial analysis and advice.

Claims Reserves – Future in house claims handling costs for previous policy years

The Association is required to provide for the future in house claims handling costs for previous policy years. The future claims handling costs which would be incurred in managing previous policy years is unknown. A review is performed annually by management of expected run off costs and a provision made accordingly. The basis for the provision is a judgemental assessment based upon the experience of management.

Reinsurance Recoveries

Reinsurance recoveries are accrued against gross claims reserves, as noted above, including estimates and provisions where the Association has an entitlement to make such recoveries.

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4. MANAGEMENT OF INSURANCE RISK AND FINANCIAL RISK

4.1 Insurance risk

The Association issues contracts that transfer insurance risk. The risks under any one insurance contract are the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Association faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

The Association models its claims development using primarily an internal chain ladder model. The output from the internal model is compared to the results derived from an external stochastically based model which is updated and processed annually and actuarially certified.

The objective of the Association's management of insurance risk is to achieve a breakeven technical result and to ensure that the carrying amount of the insurance liabilities are not exceeded by the actual experience of claims development. The Association manages insurance risk through its underwriting strategy, proactive claims handling and adequate reinsurance arrangements.

The limit of cover under the P&I Class, unless specifically limited under the member's terms of entry, is the overspill limit (US$ equivalent of the Convention on Limitation of Liability for Maritime Claims (LLMC), 1976, SDR figure) in excess of the International Group excess of loss reinsurance program, estimated to be in the order of US$6 billion. Oil pollution is limited to US$1billion. FD&D cover is in theory unlimited, albeit subject to the discretion of the Directors, however, disputes arising in relation to ship building, purchase, sale, negligent repair, alteration or conversion are limited to US$250,000, unless a higher amount is otherwise agreed between Members and Managers. War risks cover is limited to the hull and machinery value of the entered ship.

The underwriting strategy attempts to ensure that the underwritten risks (as discussed in note 1) are of appropriate quality, correctly rated and well diversified in terms of type and amount of risk, industry and geography.

The Association has a specialised claims department dealing with the mitigation of risks surrounding known claims. Claims are reviewed individually at least bi-annually and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors.

The Association is one of the 13 members of the International Group of P&I Clubs which, between them, provide liability insurance for over 90% of the world's deep-sea shipowners. All International Group Clubs operate on a mutual, not-for-profit basis with premiums being pooled and invested to pay claims directly and to buy various levels of reinsurance. The system is now recognised throughout the world as the most cost-effective and reliable method of providing marine liability insurance.

The Association is reinsured for P&I claims up to US$3.05 billion (2008/9 – US$3.05 billion) through a combination of the International Group of P&I Club's pooling and excess loss programme and the Association's own retention reinsurance.

All claims up to US$50 million are shared by the 13 International Group members and each Club in 2009/10 carried a US$7 million retention (increased to US$8 million in 2010/11). The International Group buys Excess Loss reinsurance cover at Lloyd's for claims between US$50 million and US$3.05 billion, after which costs fall back on the pool, known as 'Overspill'.

Exposure under the Pooling Agreement for claims falling to the layer US$20 million in excess of US$30 million, as well as a 25% quota share retention under the first layer of the Excess Loss contract, up to US$550 million, is reinsured by Hydra Insurance Company Limited ("Hydra"), the International Group's Bermuda based captive.

The Association also has a 'quota share' reinsurance contract with North of England Mutual Insurance Association (Bermuda) Limited ("NoE Bermuda"), a company wholly owned by Members, which reinsures 90% of the Association's retained risks.

4.2 Financial risk

The Association is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts.

Investment risk

The most important components of this investment risk are market risk (including interest rate risk), currency risk and credit risk.

Market risk

Market risk is the risk that as a result of market movements a firm may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, equities, exchange rates and real estate prices. It is important to note that none of these sources of risk is independent of the others. Market risk is managed through diversification of allocation to asset classes and restricting the concentration of investment into any one asset. A 1% increase / decrease in interest rates would have resulted in an increase/decrease in the valuation of fixed income securities of US$3.0 million.

Currency risk

The Association operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar and the UK Sterling but also Euro and other global currencies. The asset allocation policy within the Board's Statement of Investment Principles contains provisions for the matching of assets and liabilities by currency type. The enforcement of that policy is through the specific investment guidelines under which the investment managers operate.

Asset / liability currency management is executed in the bond fund with assets held to match liabilities in the required individual currency proportions. At present the neutral currency position for the bond fund is

US$	82%
£STG	9%
Euro	9%

The bond managers who manage discretionary portfolios are allowed to deviate from the neutral position but only to a maximum of 10% and are allowed to invest up to 15% of the fund in alternative OECD currencies.

Credit risk

The Association has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Investment related counterparty risk is managed through the investment guidelines issued to the fixed income managers. The guidelines allow up to 10% of the bond portfolio to be invested in securities rated BBB / Baa by S&P or Moody's with the balance in securities rated AA or better. The portfolio may not hold more than 5% of any single issue except for Sovereign and US Government issues. No more than 10% of the portfolio may be invested in the long term (over one year) obligations of a single issuer except for sovereign borrowers, supranational borrowers and US Government Agencies where a limit of 20% shall apply and in relation to BBB borrowers where a limit of 1% shall apply. There is no restriction on the exposure of the portfolio to obligations of sovereign or supranational borrowers rated AAA by S&P or Moody's.

The following table provides information regarding the aggregate credit risk exposure, for financial assets with external credit ratings, of the Group.

At 20 February 2010

	AAA	AA	A	BBB	Speculative Grade	Not Rated	NoE (Bermuda)	Carrying Value $000s
Debt securities	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	74,383
Reinsurance assets	0.0%	0.8%	34.4%	6.3%	0.6%	0.0%	57.9%	725,592
Other receivable	5.3%	0.3%	24.0%	1.0%	0.0%	69.4%	0.0%	12,978

At 20 February 2009

	AAA	AA	A	BBB	Speculative Grade	Not Rated	NoE (Bermuda)	Carrying Value $000s
Debt securities	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	72,696
Reinsurance assets	0.0%	1.0%	25.6%	2.5%	0.0%	0.0%	70.9%	574,635
Other receivable	5.3%	5.6%	57.3%	1.0%	0.0%	30.8%	0.0%	12,289

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4.2 Financial risk (continued)

Investment risk management

The Association manages its investment funds in accordance with an investment framework set out in the Statement of Investment Principles that is approved by the Directors. The framework determines investment policy and the management of investment risk and is reviewed on a regular basis. The detailed consideration of investment strategy is the responsibility of the Investment Committee, a sub committee of the Board of Directors. Investment management is outsourced to professional investment managers. When vacancies arise, prospective investment managers are interviewed and if suitable proposed by the Investment Committee and approved for appointment by the Directors. The performance of the investment managers against their respective benchmark is monitored on a monthly basis and there is a quarterly review of performance and measurement of portfolio risk by an independent consultant.

The asset class allocation policy is aligned so as to match the liabilities faced by the Association. The current asset allocation is 100% in fixed income and cash assets. The known claims liabilities facing the Association are matched against fixed income assets, representing secure and highly liquid assets known to preserve capital and which if called upon could be realised very quickly to settle liabilities.

Other areas where the Association is exposed to credit risk are:

Reinsurer's share of insurance liabilities

Reinsurance is used to manage insurance risk as explained above. This does not, however, discharge the Association's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Association remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength prior to finalisation of any contract.

Amounts due from members

A Member shall cease to be insured by the Association in respect of any and all ships entered by him or on his behalf (or in a fleet entry in which any one or all of his ships are entered) if having failed to pay when due and demanded by the Managers any sum due from him to the Association. If, having failed to pay any sum due to the Association, a Member has ceased to be insured by the Association, the Association is not liable for any claims under the Rules whether the incident giving rise to such claim occurred before or after the cessation of insurance.

Under the Rules, the Association shall be entitled to, and the Member grants, a lien on the entered ship in respect of any amount whatsoever owed by the Member to the Association.

Amounts due from insurance intermediaries

As agents for the members the rules applying above in respect of amounts due from members apply to amounts due from insurance intermediaries. With regard to amounts due under contracts of reinsurance ceded, the Association employs insurance intermediaries that are subject to the regulation of and approved by the Financial Services Authority in the UK. As such, insurance intermediaries are required to operate client trust accounts to ring-fence the amounts held on their clients' behalf.

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5. SEGMENT INFORMATION

(a) Primary reporting format

At 20 February 2010, the Association is organised into 3 business segments,

Protecting & Indemnity Class;
Freight, Defence & Demurrage Class; and
War Risks Class.

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

Statement of financial position

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets	6	1,827	–	–	1,827
Property, plant and equipment	7	13,807	–	–	13,807
Reinsurance contracts	11	688,162	37,430	–	725,592
Financial assets					
Equity securities:					
– at fair value through income	8	50	–	–	50
Debt securities:					
– at fair value through income	8	74,383	–	–	74,383
Loans and receivables including insurance and reinsurance receivables	9	11,957	947	74	12,978
Derivative financial instruments		102	–	–	102
Retirement benefit asset	29	18,935	–	–	18,935
Current tax asset		274	–	–	274
Cash and cash equivalents	10	29,195	325	4,865	34,385
Total assets		838,692	38,702	4,939	882,333
ACCUMULATED SURPLUS					
Income and expenditure account	21	(28,061)	1,587	4,884	(21,590)
Contingency funds	21	41,692	3,084	–	44,776
Revaluation reserve	21	5,428	–	–	5,428
Total accumulated surplus		19,059	4,671	4,884	28,614
LIABILITIES					
Insurance contracts	11	731,543	40,693	–	772,236
Reinsurance payables		83,882	(6,770)	2	77,114
Trade and other payables	12	4,208	108	53	4,369
Total liabilities		819,633	34,031	55	853,719
Total accumulated surplus and liabilities		838,692	38,702	4,939	882,333

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5. SEGMENT INFORMATION (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		(209,211)	(6,221)	(211)	(215,643)
		59,522	9,815	71	69,408
Investment income	13	75	–	16	91
Net fair value gains at fair value through income	14	(501)	–	–	(501)
Net income		**59,096**	**9,815**	**87**	**68,998**
Insurance claims and loss adjustment expenses	15	326,643	14,272	–	340,915
Insurance claims and loss adjustment expenses recovered from reinsurers		(296,939)	(9,917)	–	(306,856)
Net insurance benefits and claims		29,704	4,355	–	34,059
Expenses for the acquisition of insurance and investment contracts	16	21,425	845	12	22,282
Expenses for marketing and administration	16	9,936	3,106	117	13,159
Expenses for asset management services rendered	16	288	–	8	296
Expenses		**61,353**	**8,306**	**137**	**69,796**
Results of operating activities		(2,257)	1,509	(50)	(798)
Finance income / expenditure	19	4,406	152	(25)	4,533
Surplus before tax		2,149	1,661	(75)	3,735
Tax expense	20	232	41	–	273
Surplus for the year		**2,381**	**1,702**	**(75)**	**4,008**

(All Amounts in US Dollar thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

Insurance premium revenue

	P&I	FD&D	War Risks	Total
Mutual	233,174	15,589	284	249,047
Laid up returns	(2,466)	–	–	(2,466)
	230,708	15,589	284	246,581
Release premium: various policy years	2,086	259	–	2,345
	232,794	15,848	284	248,926
Time charter	30,237	–	–	30,237
Fixed premium	6,283	–	–	6,283
	269,314	15,848	284	285,446
Bad and doubtful debts	(581)	188	(2)	(395)
Total Insurance premium revenue	**268,733**	**16,036**	**282**	**285,051**

Insurance premium ceded to reinsurers

	P&I	FD&D	War Risks	Total
Market	19,189	691	110	19,990
International Group	25,572	–	–	25,572
Hydra	1,956	–	–	1,956
War Risks Group	–	–	101	101
	46,717	691	211	47,619
Ceded to NoE (Bermuda)	162,494	5,530	–	168,024
	209,211	**6,221**	**211**	**215,643**

The Segment Cash Flows for the year ended 20 February 2010 are shown below:

Statement of cash flows

	P&I	FD&D	War Risks	Total
Operating activities	11,095	23	72	11,190
Investing activities	(6,487)	–	–	(6,487)
Net increase in cash and cash equivalents	4,608	23	72	4,703
Cash and bank overdrafts at beginning of year	24,587	302	4,793	29,682
Cash and bank overdrafts at end of year	**29,195**	**325**	**4,865**	**34,385**

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5. SEGMENT INFORMATION (CONTINUED)

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

Statement of financial position

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets	6	1,405	–	–	1,405
Property, plant and equipment	7	11,940	–	–	11,940
Reinsurance contracts	11	539,584	35,051	–	574,635
Financial assets					
Equity securities:					
– at fair value through income	8	52	–	–	52
Debt securities:					
– at fair value through income	8	72,696	–	–	72,696
Loans and receivables including insurance and reinsurance receivables	9	11,177	1,013	99	12,289
Retirement benefit asset	29	15,083	–	–	15,083
Cash and cash equivalents	10	24,890	302	4,793	29,985
Total assets		676,827	36,366	4,892	718,085
ACCUMULATED SURPLUS					
Income and expenditure account	21	(29,280)	(218)	4,959	(24,539)
Contingency funds	21	40,529	3,188	–	43,717
Revaluation reserve	21	4,652	–	–	4,652
Total accumulated surplus		15,901	2,970	4,959	23,830
LIABILITIES					
Insurance contracts	11	581,634	38,238	–	619,872
Derivative financial instruments		87	–	–	87
Reinsurance payables		77,879	(8,510)	132	69,501
Trade and other payables	12	78	3,668	(199)	3,547
Current tax liabilities		945	–	–	945
Cash and cash equivalents		303	–	–	303
Total liabilities		660,926	33,396	(67)	694,255
Total accumulated surplus and liabilities		676,827	36,366	4,892	718,085

(All Amounts in US Dollar thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

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

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		238,318	15,850	914	255,082
Insurance premium ceded to reinsurers		(185,310)	(6,246)	(655)	(192,211)
		53,008	9,604	259	62,871
Investment income	13	573	1	33	607
Net fair value gains at fair value through income	14	5,542	–	(232)	5,310
Net income		**59,123**	**9,605**	**60**	**68,788**
Insurance claims and loss adjustment expenses	15	149,212	18,639	–	167,851
Insurance claims and loss adjustment expenses recovered from reinsurers		(125,442)	(14,683)	–	(140,125)
Net insurance benefits and claims		23,770	3,956	–	27,726
Expenses for the acquisition of insurance and investment contracts	16	20,082	1,057	10	21,149
Expenses for marketing and administration	16	9,213	2,959	229	12,401
Expenses for asset management services rendered	16	750	–	–	750
Expenses		**53,815**	**7,972**	**239**	**62,026**
Results of operating activities		5,308	1,633	(179)	6,762
Finance income / expenditure	19	5,319	(612)	413	5,120
Surplus before tax		10,627	1,021	234	11,882
Tax expense	20	(854)	(80)	(6)	(940)
Surplus for the year		**9,773**	**941**	**228**	**10,942**

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5. SEGMENT INFORMATION (CONTINUED)

Insurance premium revenue

	P&I	FD&D	War Risks	Total
Mutual	206,497	16,330	914	223,741
Laid up returns	(795)	–	–	(795)
	205,702	16,330	914	222,946
Release premium: various policy years	2,722	84	–	2,806
	208,424	16,414	914	225,752
Time charter	24,061	–	–	24,061
Fixed premium	7,806	–	–	7,806
	240,291	16,414	914	257,619
Bad and doubtful debts	(1,973)	(564)	–	(2,537)
Total Insurance premium revenue	**238,318**	**15,850**	**914**	**255,082**

Insurance premium ceded to reinsurers

	P&I	FD&D	War Risks	Total
Market	20,080	2,552	453	23,085
International Group	19,539	–	–	19,539
Hydra	1,352	–	–	1,352
War Risks Group	–	–	202	202
	40,971	2,552	655	44,178
Ceded to NoE (Bermuda)	144,339	3,694	–	148,033
	185,310	**6,246**	**655**	**192,211**

The Segment Cash Flows for the year ended 20 February 2009 are shown below:

Statement of cash flows

	P&I	FD&D	War Risks	Total
Operating activities	20,126	283	(233)	20,176
Investing activities	(11,877)	–	3,728	(8,149)
Net increase in cash and cash equivalents	8,249	283	3,495	12,027
Cash and bank overdrafts at beginning of year	16,338	19	1,298	17,655
Cash and bank overdrafts at end of year	**24,587**	**302**	**4,793**	**29,682**

(All Amounts in US Dollar thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting format

The Association's three business segments operate in 8 geographical areas based upon the place of management of Members' entered ships.

Gross insurance premium revenue

	2010	2009
Far East	51,053	44,550
Southern Europe	46,216	46,954
Middle East	46,441	42,578
North America	24,715	21,107
Northern Europe	68,906	51,447
Scandinavia	13,369	14,024
United Kingdom	16,615	19,744
Others	17,736	14,678
	285,051	255,082

The assets and capital expenditure of the Association are located in the United Kingdom for the purposes of segmental reporting requirements.

6. INTANGIBLE ASSETS

The Group and the Company

	Computer software
At 20 February 2009	
Cost or valuation	4,500
Accumulated amortisation	(3,095)
Net book amount	**1,405**
Year ended 20 February 2010	
Opening net book amount	1,405
Exchange differences	107
Additions	1,080
Amortisation charge	(765)
Closing net book amount	**1,827**
At 20 February 2010	
Cost or valuation	5,924
Accumulated amortisation	(4,097)
Net book amount	**1,827**

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7. PROPERTY, PLANT AND EQUIPMENT

The Group and the Company

	Land and buildings	Computer equipment	Motor Vehicles	Office Equipment & Fittings	Total
At 20 February 2009					
Cost or valuation	10,170	3,920	901	2,227	17,218
Accumulated depreciation	–	(3,168)	(437)	(1,673)	(5,278)
Net book amount	**10,170**	**752**	**464**	**554**	**11,940**
Year ended 20 February 2010					
Opening net book amount	10,170	752	464	554	11,940
Exchange differences	–	57	35	41	133
Revaluation surplus	776	–	–	–	776
Additions	783	1,023	398	90	2,294
Disposals	–	–	(141)	–	(141)
Depreciation charge	(203)	(502)	(189)	(301)	(1,195)
Closing net book amount	**11,526**	**1,330**	**567**	**384**	**13,807**
At 20 February 2010					
Cost or valuation	11,729	5,242	998	2,486	20,455
Accumulated depreciation	(203)	(3,912)	(431)	(2,102)	(6,648)
Net book amount	**11,526**	**1,330**	**567**	**384**	**13,807**

The group's land and building were revalued at 20 February 2009 by Sanderson Weatherall, independent valuers not connected with the Association. The valuation was made on the basis of open market value.

Depreciation expense of US$1,195,000 (2009 – US$994,000) has been charged in expenses for marketing and administration.

If land and building were stated on a historical cost basis, the amounts would be as follows:

At 20 February

	2010	2009
Cost	6,625	6,625
Accumulated depreciation	(1,865)	(1,662)
Net book amount	**4,760**	**4,963**

(All Amounts in US Dollar thousands unless otherwise stated)

8. FINANCIAL ASSETS

Financial assets are summarised below by measurement category in the table below. All assets are current assets.

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Fair value through income	74,433	47,598	72,748	47,446
Loans and receivables including insurance and reinsurance receivables (note 9)	12,978	17,134	12,289	11,999
Derivative financial instruments	102	102	–	–
Total financial assets	**87,513**	**64,834**	**85,037**	**59,445**

Financial assets at fair value through income

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Equity securities:				
– listed	**50**	**50**	**52**	**52**
Debt securities – fixed interest rate				
– government bonds	69,504	42,669	72,491	47,189
– listed	4,879	4,879	205	205
	74,383	**47,548**	**72,696**	**47,394**
Total financial assets at fair value through income	**74,433**	**47,598**	**72,748**	**47,446**

Maturity dates of the fixed interest debt securities are as follows:

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
In up to two years	19,541	7,252	19,470	459
In more than two years but not more than three years	20,292	5,746	16,128	9,837
In more than four years but not more than five years	11,036	11,036	14,967	14,967
In more than five years	23,514	23,514	22,131	22,131
	74,383	**47,548**	**72,696**	**47,394**

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
At 20 February 2009	72,748	47,446	66,379	46,295
Additions	288,925	266,333	218,859	200,682
Disposals (sale and redemptions)	(285,691)	(264,989)	(212,643)	(199,610)
Fair value net (losses) / gains (excluding net realised gains)	(1,549)	(1,192)	153	79
At 20 February 2010	**74,433**	**47,598**	**72,748**	**47,446**

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9. LOANS AND RECEIVABLES

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Receivables arising from insurance and reinsurance contracts:				
– due from contract holders	5,484	5,484	2,044	2,044
– due from reinsurers	2,415	6,744	3,166	3,166
Other loans and receivables:				
– prepayments	487	481	2,294	2,288
– accrued interest	571	404	656	372
– other debtors	4,021	4,021	4,129	4,129
	12,978	**17,134**	**12,289**	**11,999**

Included in other debtors are US$18,900 (2009 – US$18,300) that are due more than twelve months after the statement of financial position date.

10. CASH AND CASH EQUIVALENTS

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Cash at bank and in hand	10,402	9,870	6,171	4,688
Short-term bank deposits	6,696	4,000	7,180	7,000
Money market funds	17,287	17,287	16,634	16,634
	34,385	**31,157**	**29,985**	**28,322**

The effective interest rate on short-term bank deposits was 0.2% and the deposits have an average maturity of 3 days.

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Cash and cash equivalents	34,385	31,157	29,985	28,322
Bank overdrafts	–	–	(303)	(303)
	34,385	**31,157**	**29,682**	**28,019**

Bank overdrafts are repayable on demand. At 20 February 2010, the unused bank overdraft facility amounted to £1,000,000 (2009 – £788,000).

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11. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Gross				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	712,506	712,506	574,800	574,800
– claims incurred but not reported and claims handling reserve	59,730	59,730	45,072	45,072
Total insurance liabilities, gross	**772,236**	**772,236**	**619,872**	**619,872**
Recoverable from reinsurers				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	671,835	691,360	534,070	551,769
– claims incurred but not reported and claims handling reserve	53,757	53,757	40,565	40,565
Total reinsurers' share of insurance liabilities	**725,592**	**745,117**	**574,635**	**592,334**
Net				
Short term insurance contracts:				
– claims reported and loss adjustment expenses	40,671	21,146	40,730	23,031
– claims incurred but not reported and claims handling reserve	5,973	5,973	4,507	4,507
Total insurance liability, net	**46,644**	**27,119**	**45,237**	**27,538**

MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

The Group

	Gross	Reinsurance	Net
Outstanding claims at beginning of year	619,872	(574,635)	45,237
Cash (paid) / recovered for claims settled in the year	(109,956)	100,063	(9,893)
Increase / (decrease) in liabilities			
– arising from current year claims	277,049	(261,364)	15,685
– arising from prior year claims	(20,429)	15,474	(4,955)
– arising from change in claim handling reserve	5,700	(5,130)	570
Outstanding claims at end of year	**772,236**	**(725,592)**	**46,644**

The Company

	Gross	Reinsurance	Net
Outstanding claims at beginning of year	619,872	(592,334)	27,538
Cash (paid) / recovered for claims settled in the year	(109,956)	112,778	2,822
Increase / (decrease) in liabilities			
– arising from current year claims	277,049	(275,352)	1,697
– arising from prior year claims	(20,429)	14,921	(5,508)
– arising from change in claim handling reserve	5,700	(5,130)	570
Outstanding claims at end of year	**772,236**	**(745,117)**	**27,119**

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11. INSURANCE LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

Policy year analysis

	Closed years	Open policy years 2007	2008	2009	Handling reserve	Total
ALL CLASSES						
At 20 February 2010						
Gross outstanding claims	232,975	70,304	168,508	277,049	23,400	772,236
Reinsurance amount	217,474	65,352	160,341	261,365	21,060	725,592
Net outstanding claims	**15,501**	**4,952**	**8,167**	**15,684**	**2,340**	**46,644**
At 20 February 2009						
Gross outstanding claims	260,691	120,246	221,235	–	17,700	619,872
Reinsurance amount	241,926	111,447	205,332	–	15,930	574,635
Net outstanding claims	**18,765**	**8,799**	**15,903**	**–**	**1,770**	**45,237**

	Closed years	Open policy years 2007	2008	2009	Handling reserve	Total
P&I CLASS						
At 20 February 2010						
Gross outstanding claims						
Members	203,344	57,033	151,886	227,819	17,600	657,682
Pooling agreement	22,926	8,965	4,294	37,676	–	73,861
	226,270	**65,998**	**156,180**	**265,495**	**17,600**	**731,543**
Reinsurance amount						
Recoveries due under the pooling agreement	24,248	3,284	4,302	51,676	–	83,510
Recoveries due from reinsurers	53,714	17,501	75,741	67,275	–	214,231
Recoveries due from NoE(Bermuda)	133,477	40,692	68,522	131,890	15,840	390,421
	211,439	**61,477**	**148,565**	**250,841**	**15,840**	**688,162**
Net outstanding claims	**14,831**	**4,521**	**7,615**	**14,654**	**1,760**	**43,381**
At 20 February 2009						
Gross outstanding claims	250,987	113,711	203,736	–	13,200	581,634
Reinsurance amount	233,185	105,565	188,954	–	11,880	539,584
Net outstanding claims	**17,802**	**8,146**	**14,782**	**–**	**1,320**	**42,050**

(All Amounts in US Dollar thousands unless otherwise stated)

11. INSURANCE LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

	Closed years	Open policy years 2006	2007	2008	Handling reserve	Total
FD&D CLASS						
At 20 February 2010						
Gross outstanding claims	6,705	4,306	12,328	11,554	5,800	40,693
Reinsurance amount						
Recoveries due from reinsurers	–	–	6,808	1,252	–	8,060
Recoveries due from NoE(Bermuda)	6,035	3,875	4,968	9,272	5,220	29,370
	6,035	3,875	11,776	10,524	5,220	37,430
Net outstanding claims	**670**	**431**	**552**	**1,030**	**580**	**3,263**
At 20 February 2009						
Gross outstanding claims	9,704	6,535	17,499	–	4,500	38,238
Reinsurance amount						
Recoveries due from reinsurers	73	–	6,295	–	–	6,368
Recoveries due from NoE(Bermuda)	8,668	5,882	10,083	–	4,050	28,683
	8,741	5,882	16,378	–	4,050	35,051
Net outstanding claims	**963**	**653**	**1,121**	–	**450**	**3,187**

War Risks Class

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

Sensitivity analysis

The uncertainty surrounding the valuation, timing and cash flows of claims liabilities, the process of claims reserve estimation and the process and assumptions regarding the determination of other claims liability based reserves are set out in note 3.

Notified claims numbers in the 2009 policy year were 5% higher in 2009 compared to 2008 and claims values fell by 1% (in turn at the same point in the development of the policy years, 2008 claims numbers were some 24% and values 8% higher than 2007). The Pool produced more by way of liability in 2009 than in 2008 with exposure to other clubs' claims to the Pool assessed at 20 February to be more than double the 2008 figure at the same time last year (2008 was 68% of 2007).

There are a significant number of variables which lead to the uncertainty surrounding the valuation, timing and cash flows of claims liabilities although management are of the opinion that the Accumulated Surplus is not materially sensitive to any one variable. The extent to which the Accumulated Surplus may be sensitive to any individual variable or any groups of variables is best demonstrated by the development of claims liabilities.

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11. INSURANCE LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

The development of claims liabilities by policy year is as follows:

Insurance claims development – Gross

Policy year	2009	2008	2007	2006	2005	2004	2003	2002	2001	Total
Estimate of ultimate claims cost										
At end of policy year	338,956	255,764	236,464	226,864	137,229	161,740	174,299	117,827	86,292	
One year later		256,301	201,491	229,315	150,880	176,857	155,467	135,252	78,715	
Two years later			177,441	198,174	126,358	162,688	137,720	126,252	69,319	
Three years later				205,630	111,543	159,768	135,382	117,148	63,046	
Four years later					113,368	154,178	125,283	113,038	60,692	
Five years later						156,403	121,404	110,193	58,313	
Six years later							119,448	109,068	58,196	
Seven years later								107,276	57,168	
Eight years later									53,530	
Current estimate of cumulative claims	338,956	256,301	177,441	205,630	113,368	156,403	119,448	107,276	53,530	
Cumulative payments to date	61,907	87,793	107,138	121,282	78,979	111,860	105,590	95,253	50,392	
Liability recognised in the statement of financial position	277,049	168,508	70,303	84,348	34,389	44,543	13,858	12,023	3,138	708,159
Liability in respect of prior policy years										40,677
Claims handling reserve										23,400
Total liability included in the statement of financial position										772,236

(All Amounts in US Dollar thousands unless otherwise stated)

11. INSURANCE LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

Insurance claims development – Net

Policy year	2009	2008	2007	2006	2005	2004	2003	2002	2001	Total
Estimate of ultimate claims cost										
At end of policy year	21,765	19,267	19,065	26,797	16,261	14,836	13,075	10,453	8,473	
One year later		16,731	16,624	16,960	14,987	14,660	12,266	10,698	7,695	
Two years later			14,952	16,693	12,938	13,429	11,670	10,173	6,776	
Three years later				15,310	10,696	12,767	11,270	9,864	6,164	
Four years later					11,631	12,310	10,616	9,431	5,955	
Five years later						12,524	10,491	9,284	5,719	
Six years later							10,222	9,186	5,710	
Seven years later								8,999	5,616	
Eight years later									5,290	
Current estimate of cumulative claims	21,765	16,731	14,952	15,310	11,631	12,524	10,222	8,999	5,290	
Cumulative payments to date	6,080	8,565	10,000	11,243	7,828	10,280	9,307	7,985	4,984	
Liability recognised in the statement of financial position	15,685	8,166	4,952	4,067	3,803	2,244	915	1,014	306	41,152
Liability in respect of prior policy years										3,152
Claims handling reserve										2,340
Total liability included in the statement of financial position										46,644

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12. TRADE AND OTHER PAYABLES

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Trade payables and accrued expenses	4,369	4,302	3,547	3,491

All the above amounts were due within twelve months of the statement of financial position date.

13. INVESTMENT INCOME

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Interest on bank deposits	91	91	607	600
	91	91	607	600

14. NET FAIR VALUE GAINS ON ASSETS AND AT FAIR VALUE THROUGH INCOME

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Net fair value gains on financial assets through income:				
– fair value gains	2,223	1,353	6,987	5,685
– fair value losses	(2,724)	(2,274)	(1,677)	(1,469)
	(501)	(921)	5,310	4,216

Net fair value gains include gains arising from interest, dividends and net realised gains on financial assets at fair value through income for US$661,000 (2009 – US$6,984,000).

Net fair value gains on debt securities are as follows:

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Bond interest	2,130	1,353	2,771	1,711
Net realised (losses) / gains	(1,470)	(1,020)	4,083	3,841
Net movement on unrealised losses	(1,156)	(1,249)	(1,152)	(944)
	(496)	(916)	5,702	4,608

Net fair value gains on equity are as follows:

The Group and the Company	2010	2009
Dividends	–	15
Net realised gains	–	115
Net movement on unrealised losses	(5)	(522)
	(5)	(392)

(All Amounts in US Dollar thousands unless otherwise stated)

15. INSURANCE CLAIMS

The Group

	2010		
	Gross	Reinsurance	Net
Current year claims and loss adjustment expenses	355,646	(317,192)	38,454
Reduction in cost for prior year claims and loss adjustment expenses	(14,731)	10,335	(4,396)
Total claims and loss adjustment expense	**340,915**	**(306,857)**	**34,058**

The Company

	2010		
	Gross	Reinsurance	Net
Current year claims and loss adjustment expenses	355,646	(331,179)	24,467
Reduction in cost for prior year claims and loss adjustment expenses	(14,731)	9,789	(4,942)
Total claims and loss adjustment expense	**340,915**	**(321,390)**	**19,525**

The Group

	2009		
	Gross	Reinsurance	Net
Current year claims and loss adjustment expenses	270,788	(236,514)	34,274
Reduction in cost for prior year claims and loss adjustment expenses	(102,937)	96,389	(6,548)
Total claims and loss adjustment expense	**167,851**	**(140,125)**	**27,726**

The Company

	2009		
	Gross	Reinsurance	Net
Current year claims and loss adjustment expenses	270,788	(242,170)	28,618
Reduction in cost for prior year claims and loss adjustment expenses	(102,937)	97,717	(5,220)
Total claims and loss adjustment expense	**167,851**	**(144,453)**	**23,398**

16. EXPENSES BY NATURE

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Auditors' remuneration – audit services	131	131	135	135
Auditors' remuneration – other services	6	6	–	–
Depreciation and amortisation charges	1,974	1,974	1,619	1,619
Staff costs (note 17)	25,117	25,117	24,072	24,072
Lease payments	197	197	–	–
Purchase of goods and services	8,312	8,192	8,474	8,370
	35,737	**35,617**	**34,300**	**34,196**

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17. STAFF COSTS

The average monthly number of employees (including executive Directors) was:

	2010 Number	2009 Number
P&I claims and MSMI	81	76
FD&D	34	31
Underwriting and entries	23	23
Risk management	12	10
Other	49	44
	199	184

Their aggregate remuneration comprised:

	2010	2009
Wages and salaries	17,769	16,710
Social security costs	1,781	1,556
Retirement benefit obligations – defined benefit plans (note 29)	4,198	4,173
Other post-employment benefits	1,369	1,633
	25,117	24,072

18. DIRECTORS' REMUNERATION

Remuneration

The remuneration of the Directors was as follows:

	2010	2009
	2,578	2,627

Emoluments include short-term employee benefits, post-employment benefits, other long-term benefits, and termination benefits.

No Directors were members of the Company's defined benefit pension scheme during the year.

The aggregate value of Association contributions paid to defined contribution pension schemes in respect of Directors' qualifying services was as follows:

	2010	2009
Pension contributions paid by the Association	89	260

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2010	2009
Emoluments	990	867

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 20 February 2010 was US$ nil (2009 – US$ nil).

(All Amounts in US Dollar thousands unless otherwise stated)

19. FINANCE INCOME

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
On fair value financial investments	215	215	3,608	3,608
Other	4,318	4,317	1,512	1,512
	4,533	4,532	5,120	5,120

20. TAX EXPENSE

The Group and the Company

	2010	2009
Current tax	(273)	940

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to investment income is as follows:

	2010	2009
Investment income	91	600
Net fair value gains on financial assets	(921)	4,216
Expenses for asset management services rendered	(244)	(703)
Investment return	(1,074)	4,113
Tax on the above at standard UK corporation tax rate of 28% (2009 – 28%)	(301)	1,151
Non-taxable items	–	45
Foreign exchange difference	28	(252)
Adjustment in respect of prior year	–	(4)
	(273)	940

There is no unrecognised deferred tax asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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21. RESERVES

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Income and expenditure reserve	(21,590)	(23,328)	(24,539)	(29,462)
Contingency fund	44,776	44,776	43,717	43,717
Revaluation Reserve	5,428	5,428	4,652	4,652
	28,614	**26,876**	**23,830**	**18,907**

(a) Income and expenditure account

The deficit represents the net balance on open policy years, the claims handling reserve plus unrealised gains on investments.

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Balance at 20 February 2009	(24,539)	(29,462)	(36,000)	(36,104)
Surplus after tax	4,008	7,193	10,942	6,123
Transfer (to) / from Contingency Fund	(1,059)	(1,059)	519	519
Balance at 20 February 2010	**(21,590)**	**(23,328)**	**(24,539)**	**(29,462)**

(b) Contingency Funds

The Group and the Company

Protecting & Indemnity Class	2010	2010	2009	2009
Balance at 20 February 2009		40,529		40,837
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / losses and income	(1,015)		(3,684)	
Surplus transferred from closed policy years	2,178		3,376	
		1,163		(308)
Balance at 20 February 2010		**41,692**		**40,529**

The contingency fund was established by the Directors on 12 October 1983 in order to maintain call stability.

Freight, Demurrage & Defence Class	2010	2010	2009	2009
Balance at 20 February 2009		3,188		3,399
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / losses and income	100		(132)	
Surplus transferred from closed policy years	(204)		(79)	
		(104)		(211)
Balance at 20 February 2010		**3,084**		**3,188**

The contingency fund was established by the Directors on 23 September 1994 in order to maintain call stability.

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21. RESERVES (CONTINUED)

(c) Revaluation Reserve

The Group and the Company	2010	2009
Balance at brought forward	4,652	7,807
Exchange gain / (loss)	776	(3,155)
Balance at carried forward	**5,428**	**4,652**

22. SUBSIDIARY UNDERTAKINGS

The subsidiary undertakings, all wholly owned, are:

	Place of incorporation	Percentage holding	Nature of business
The North of England P&I Association (Bermuda) Limited	Bermuda	100	Marine insurance company
NEPIA Trust Company Limited	United Kingdom	100	Corporate trustee
North Insurance Management Limited	United Kingdom	100	Management services
Hydra Insurance Company Limited	Bermuda	100 (of cell)	Reinsurance captive

North Insurance Management Limited is a management company which manages the Association and Marine Shipping Mutual Insurance Company Limited.

The North of England P&I Association (Bermuda) Limited did not trade during the year and the NEPIA Trust Company Limited is dormant.

The segregated cell within Hydra Insurance Company Limited, which reinsures the Association for its liability under the upper layer of the pool and its share of the first layer of the International Group excess loss reinsurance contract has also been consolidated.

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23. LOANS TO DIRECTORS AND OFFICERS

The following loans subsisted during the year:

	Amount outstanding at 20 February 2010	Amount outstanding at 20 February 2009
RC Eccleston	–	1

The amount outstanding at 20 February 2009 was also the maximum amount outstanding during the year.

These amounts are included in the statement of financial position under "Loans and receivables including insurance and reinsurance receivables". The loans are interest free, repayable with three months notice and are secured as a charge on property.

24. DESIGNATED RESERVES

Given the increases in recent years of pool retentions and the participation of International Group Clubs, by way of coinsurance, in the Group market reinsurance contract, for policy years up to and including 2008/2009, all members of the International Group of P&I Clubs have entered into arrangements (under an agreement dated 20 February 1996) whereby each Club has provided letters of credit in favour of the Bermuda Trust Company. Such letters of credit can only be drawn upon in the event that the Association fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The Association has lodged US$12,332,674 (2009 – US$12,355,862) in relation to its participation in the arrangement. No calls have been made upon the facility.

25. LEASE

Future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2010	2009
Within 1 year	326	–
Later than 1 year and not later than 5 years	7	–
	333	–

26. OTHER GUARANTEES

In the normal course of business, the Association has provided letters of credit and guarantees on behalf of its members. These are secured by investments lodged with the Association amounting to US$8.7 million (2009 – US$12.4 million).

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27. RELATED PARTY TRANSACTIONS

Transactions with the Directors of the Association are disclosed in note 23.

The Association cedes 90% of its P&I and FD&D risks to NoE Bermuda. The Association and NoE Bermuda are related parties in so far as they have identical members but there is no control by one company over another. Related party transactions with NoE Bermuda have been shown separately in the notes to the consolidated income statement and statement of financial position.

The Group received payments of US$2,160,000 (2009 – US$2,156,000) during the year in respect of insurance intermediary charges from Marine Shipping Mutual Insurance Company Limited, whose joint managing directors are PA Jennings and AA Wilson.

28. CASH GENERATED FROM OPERATIONS

	The Group 2010	The Company 2010	The Group 2009	The Company 2009
Surplus before taxation	3,735	6,920	11,882	7,063
Adjustments for:				
Depreciation and amortisation	1,960	1,960	1,619	1,619
Foreign exchange	(1,315)	(1,315)	3,758	3,798
Investment income	2,631	2,274	(2,524)	(2,490)
Loss on sale of property, plant and equipment	21	21	9	9
Increase / (decrease) in insurance contracts net of reinsurance recoverables	1,407	(419)	(643)	2,011
(Increase) / decrease in loans and receivables	(689)	(5,135)	2,264	2,335
Increase / (decrease) in reinsurance payables	7,613	7,613	2,331	(1,767)
Increase in derivative financial instruments	(189)	(189)	87	87
Increase in trade and other payables	822	811	509	561
(Increase) / decrease in retirement benefit asset	(3,852)	(3,852)	1,385	1,385
Cash generated from operations	12,144	8,689	20,677	14,611

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29. RETIREMENT BENEFIT SCHEME

The Association operates a defined benefit scheme in the United Kingdom. A triennial actuarial valuation was carried out at 1 September 2007 and updated to 20 February 2010 by a qualified independent actuary.

The Scheme Actuary has advised the Trustees of the Scheme that the Scheme is currently funded to 65% on an on-going basis.

There is a significant difference between the funding position on a normal scheme funding basis and the position under International Accounting Standard 19 'Employee Benefits' ('IAS 19'). The principal difference arises from the different discount factors applied in the calculation of the present value of scheme obligations. Under the scheme funding basis the discount factor used is related to the underlying asset mix of the scheme and based upon the returns expected to be earned from the scheme's funds. Under IAS 19 the discount factor used is based upon yields on AA corporate bonds of appropriate duration and currency. Since the yield on AA corporate bonds is less than the return expected on the actual assets held by the scheme, the discounted rate applied to the scheme liabilities under IAS 19 is lower than is applied under the scheme valuation basis and consequently produces larger liabilities.

As mentioned in notes 2.1 and 2.10, the Association has adopted the 'corridor' approach under IAS 19 where a portion of the net cumulative actuarial gains and losses are recognised over the remaining working lives of the scheme members. IAS 19 also permits systematic methods of faster recognition. Such permitted methods include immediate recognition of all actuarial gains and losses. The adoption of an alternative method of recognition where all actuarial gains and losses are recognised immediately on the statement of financial position would have required a statement of financial position provision under 'Retirement benefit obligations' of US$15.1 million.

The pension scheme, its assets and liabilities, assumptions and projections are based in sterling. The assets and liabilities of the scheme are converted into US Dollars, the Association's functional and presentational currency as shown in note 2.4.

Actuarial assumptions for IAS 19 – valuing the Scheme liabilities

IAS 19 sets out prescribed (qualitative) conditions for selecting the actuarial assumptions used to calculate the pension liabilities and pension costs. A key assumption is the discount rate which is used to determine the value of pension liabilities at the statement of financial position date. The selection of the inflation assumption is also critical as this is relevant for the salary and the pre-retirement revaluation assumptions.

These assumptions are based on market yields at the statement of financial position date, and may not be borne out in practice due to the long-term expected duration of the Scheme. Within the prescribed conditions however assumptions must be mutually compatible and lead to the best estimate of the future cash flows in respect of pension liabilities. A summary of relevant considerations is set out below.

Assumption for valuing pension liabilities	Comments on prescribed conditions
Discount rate (pre and post retirement)	Based on yields on AA corporate bonds of appropriate duration and currency, or a suitable proxy.
Price inflation	Based on the yield differential between index-linked corporate bonds and fixed-interest corporate bonds of similar credit standing (for example, using appropriate UK Government conventional and index-linked stocks).
Salary inflation	Reflecting the rate of price inflation assumed (for example, a fixed margin over the rate of price inflation).
Pension increases	Compatible with the rate of price inflation above taking into account the effects of scheme rules and valid expectations of discretionary increases based on past practice.
Demographic assumptions (for example, rates of mortality and early retirement)	Compatible assumptions that lead to a best estimate of future cash flows.
Administration expenses	As advised by the Company based on realistic forecasts.

(All Amounts in US Dollar thousands unless otherwise stated)

29. RETIREMENT BENEFIT SCHEME (CONTINUED)

Actuarial assumptions for IAS 19 – expected return on Scheme assets

IAS 19 requires assumptions to be made for the expected return on the various classes of Scheme assets to calculate the finance income element of the IAS 19 pensions charge.

For bonds and cash, the market yields at the statement of financial position date are known and the overall expected rate for bonds should therefore reflect the actual portfolio of bonds (both corporate and Government issued bonds) held by the Scheme.

For equities, the future yield is unknown. It is usually expected that the long-term return on assets will be higher than the return from bonds with the excess expected return generally referred to as the “equity risk premium”.

There is, therefore, a range of rates that can be used to calculate the expected return on assets element of the IAS 19 pensions charge. The rates that are quoted are assumed to be net of Scheme expenses, although, as recommended by the scheme actuary, the calculated credit is a gross net of expenses figure.

Mortality

Following the advice of the Scheme Actuary, the mortality table used for the 1 September 2007 valuation was the PA92YOB with long cohort and 1% underpin.

The key rates assumed are:

	2010	2009
Discount rate	5.75%	6.40%
Expected return on assets	3.00%	3.00%
Expected rate of salary increases	5.50%	5.05%
Pension increase rate	4.20%	4.13%
Inflation rate	3.50%	3.05%

Amounts for the current and previous four periods are as follows:

	2010	2009	2008	2007	2006
Defined benefit obligation	(62,201)	(37,440)	(51,195)	(41,895)	(87,183)
Fair value of plan assets	47,133	36,725	42,854	40,418	63,431
Deficit	(15,068)	(715)	(8,341)	(1,477)	(23,752)

The assets in the scheme and expected rates of return were as follows:

	Long term rate of return expected at 20 February 2010	Market Value at 20 February 2010	Long term rate of return expected at 20 February 2009	Market Value at 20 February 2009
Fixed Income	3.0%	37,970	3.0%	36,358
Other	1.0%	9,163	1.0%	367
Total		47,133		36,725

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29. RETIREMENT BENEFIT SCHEME (CONTINUED)

Sensitivity of key assumptions

The table below gives a broad indication of the IAS 19 numbers to changes in assumptions and experience (away from the current position).

Item	Approximate impact on current deficit US$M	Effect on IAS 19 Income Statement charge next year US$M
Increase / reduce discount rate by 0.25%	- 4.4 / + 4.4	- 0.3 / + 0.3
Increase / reduce real salary growth by 0.25%	+ 1.6 / - 1.6	+ 0.2 / - 0.2
Increase / reduce inflation assumption by 0.25% (Assumed affects deferred and pensioner increases and not salary increases)	+ 0.7 / - 0.7	+ 0.1 / - 0.1

Amounts recognised as expense in respect of the defined benefit scheme is as follows:

	2010	2009
Current service cost	2,288	2,835
Interest cost	2,642	2,936
Expected return on assets	(1,289)	(3,103)
Amortisation – net loss	1,104	1,504
Foreign Exchange	(1,170)	3,499
	3,575	**7,671**

The actual return on plan assets was a gain of US$651,000 (2009 a loss of US$1,633,000).

The amount included in the statement of financial position arising from the Association's obligations in respect of its defined benefit retirement scheme is as follows:

	2010	2009
Present value of defined benefit obligations	62,201	37,440
Fair value of scheme assets	47,133	36,725
Deficit in scheme	15,068	715
Unrecognised actuarial loss	34,003	15,798
Asset recognised in statement of financial position	**18,935**	**15,083**

Movements in the present value of defined benefit obligations were as follows:

	2010	2009
Projected benefit obligation at start of year	37,440	51,195
Service cost	2,288	2,835
Interest cost	2,642	2,936
Plan participant contributions	389	425
Actuarial loss / (gain)	17,191	(5,840)
Benefits paid	(606)	(788)
Exchange difference	2,857	(13,323)
Projected obligation at end of year	**62,201**	**37,440**

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29. RETIREMENT BENEFIT SCHEME (CONTINUED)

Movements in the fair value of defined benefit obligations were as follows:

	2010	2009
Fair value of assets at start of year	36,725	42,854
Expected return on plan assets	1,289	3,103
Actuarial loss	(638)	(4,539)
Third party contributions	273	317
Plan participants contributions	389	425
Employer contributions	6,899	7,810
Benefits paid	(606)	(788)
Exchange difference	2,802	(12,457)
Fair value of plan assets at end of year	47,133	36,725

The estimated value of contributions expected to be paid to the scheme during the year to 20 February 2010 is US$7.4 million.

NOTES

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