

Report of the Directors

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

Activities

The principal activity of the Association continues to be the insurance and reinsurance of Members' protection and indemnity risks (Class 1) and freight, demurrage and defence risks (Class 2).

In addition to its Head Office in Luxembourg, the Association has branches in London, Hong Kong and Piraeus to support its business activities on behalf of its Membership.

During the year, the Association has reinsured, through its wholly owned subsidiaries International Shipowners Reinsurance Company SA and The West of England Reinsurance (Hamilton) Limited, 75% and 15% respectively of its risks for all Classes.

The West of England Reinsurance (Hamilton) Limited has also reinsured various specific areas of the Association's business on both a stop loss and excess of loss basis.

West of England Insurance Services (Luxembourg) SA, which is wholly owned by the Association, provides insurance and claims handling services for the Association.

The West of England Ship Owners Insurance Services Limited, which is wholly owned by the Association, acts as landlord to its tenant companies at its premises in London.

The Association, along with the other members of the International Group of P&I Clubs, has established a 'segregated cell' insurance company called Hydra Insurance Company Ltd in Bermuda, to reinsure certain pool and quota share risks. The Association has contributed share capital to Hydra, and share capital, contributed surplus and reinsurance premiums to the Hydra West of England Cell which is wholly owned by the Association and, during the year, participated in reinsurance activities.

The Association does not perform any research and development activity.

Future developments and events since the balance sheet date

The Association will continue to maintain and develop its activities as above. There have been no significant events after the balance sheet date.

Financial risk management

Luxembourg law requires disclosure, where material, of the risk management objectives and policy of the Association and of its exposure to price, credit, liquidity and cash flow risks. The Association issues contracts that transfer insurance risk. The Association is also exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. This is discussed in further detail in the Appendix to this Report of the Directors.

Financial statements

These financial statements conform to the Luxembourg law of 8 December 1994 (as amended) in all respects except for the fact that investments are stated at market value and land and buildings at valuation. Luxembourg legislation requires that investments, including land and buildings, are stated at the lower of cost or market value. The treatment adopted is consistent with the basis of accounting generally accepted by the other members of the International Group of P&I Clubs. The financial statements are set out on pages 34 to 51 with the principal accounting policies summarised on pages 37 to 39. Financial statements conforming fully to the Luxembourg legislation are filed with the Luxembourg authorities: copies are available on request from our principal office.

These statements show a surplus for the year of \$4.0 million (2009 \$2.9 million surplus) before the transfer to the Reserve Deposit Fund of \$0.4 million (2009 \$0.4 million) and after a net transfer to the Class 1 Policy Year Reserve Account of \$48.1 million (2009 \$46.1 million from). In addition the Revaluation Reserve increased by \$4.3 million (2009 \$15.2 million decrease). Total reserves at 20 February 2010 were therefore \$169.1 million (2009 \$160.8 million).

A more detailed review of the year is contained within the Managers' review.

Report of the Directors

Continued

Directors

The present Directors of the Association, who are listed on page 7 held office throughout the year under review, with the exception of Mr A M W Staring who joined the Board with effect from 12 August 2009, Mr T Dyrbye and Mr F M Haukedal appointed with effect from 10 November 2009, Mr Y Khatau appointed with effect from 16 March 2010, and Mr A O Al-Yabhouni appointed with effect from 26 March 2010.

In addition, Mr S I Al Bassam retired from the Board with effect from 16 March 2009, Mr M S O Aldhaeri and Mr S A Terekhin with effect from 13 May 2009, and Mr I H Heesom-Green with effect from 23 September 2009.

In accordance with the Constitution of the Association all Directors will retire at the forthcoming Annual General Meeting but, being eligible, offer themselves for re-election.

General Manager

Mrs C A P Lockwood was appointed General Manager and Company Secretary of the Association with effect from 20 February 2010. She replaced Mr P A Aspden who, until his retirement, had held these positions since 30 June 1985 and 1 May 1979 respectively.

Directors and officers liability insurance

During the year, the Association maintained insurance cover for Directors and Officers against legal liabilities relating to the Association's activities.

Auditors

At the forthcoming Annual General Meeting on 22 September 2010 the Directors will propose a resolution for the appointment of PricewaterhouseCoopers S.à r.l. as Auditors for the period commencing 20 February 2010.

By order of the Board



C A P Lockwood
Secretary

19 May 2010

Appendix to the Report of the Directors

Financial risk management

(a) Insurance risk

The underwriting objective of the Association is to write business at a premium that reflects the underlying risks entered. The risk under any insurance contract is that the insured event(s) may occur and that the amount of any resulting claim(s) may be unpredictable and uncertain. For insurance contracts written by the Association the principal risk is that the actual claims payments will exceed the carrying amount held for insurance liabilities. This can occur because the frequency or severity of claims may be greater than estimated. In determining their estimate, the Association's Managers take account of advice from external actuaries who use established statistical techniques, and apply knowledge, experience and judgement to determine an estimate of the most likely outcome. The underwriting strategy ensures that risks underwritten are well diversified. Therefore, by the nature of the risks insured and the cover offered there is a sufficiently large and diverse population to reduce the variability of the expected outcome.

The frequency and severity of claims can be affected by several factors. For Class 1, the frequency of larger individual claims, those over \$250,000 each, has a significant effect on an individual policy year's ultimate result. Such claims represent typically only 2 to 3% of the total number of claims in any year and are unpredictable in terms of frequency, particularly those which reach the International Group of P&I Clubs' (the 'Group') pooling arrangements and excess loss reinsurance.

Reinsurance is used to control risk. The Association's reinsurance acts, firstly, to mitigate its exposure to individual large claims by use of excess covers and, secondly, to protect the remaining net position from variation in claims volume and average cost by using aggregate protections. For Class 1, individual larger claims within the club retention may be recoverable under reinsurances, subject to the application of an aggregate deductible.

The Association is a party to the pooling arrangements of the Group, whereby individual claims are pooled between \$7 million and \$50 million and reinsured above this level through market reinsurance purchased on behalf of all member Associations of the Group (the retention rises to \$8 million from 20 February 2010). The retained risk of a 'catastrophic occurrence' to the upper level of the Group reinsurance of \$3bn (including \$1 billion of overspill protection), under a 'one in 200 years' scenario, would result in a net exposure to the Association of approximately \$8 million for the amount above the Club retention. For Class 2, reinsurance is placed for individual claims above \$1 million.

(b) Financial risk and

(c) Investment risk

The Association is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings, although in respect of borrowings the Association generally operates without loan or overdraft positions), reinsurance assets and insurance liabilities. In particular, the key financial risk has been identified as that, long-term, its investment proceeds may be insufficient to fund the obligations arising from its insurance and investment contracts. The shorter-term risk is that the financial assets of the Association may become insufficient to cover its liabilities, or not to allow it to maintain adequate operational solvency or a required margin of solvency for compliance purposes. The main components of this financial risk are interest rate risk, equity price risk, foreign currency risk, liquidity risk and credit risk. Risk within the fixed income portfolio arises primarily from interest rate movements and, for corporate bonds, credit risk and currency risk. Risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

The risks that the Association primarily faces due to the nature of its investments and liabilities are interest rate risk and price risk.

The Club's strategic asset allocation and investment performance are kept under consistent review, including in respect of liquidity and capital preservation.

The key methods the Association uses to manage financial and investment risk include:

- All its investment managers must operate in accordance with internal risk control procedures necessary to ensure compliance with the constraints placed on the portfolio by the guidelines agreed for that portfolio and undertake to comply with such additional reporting and monitoring procedures as may be required by the custodian (which performs checks on the whole portfolio) the Association or regulatory authorities.
- Where assets representing the technical provisions comprise derivative instruments, these instruments are used for hedging purposes or as a substitute for the use of cash instruments in situations where it is more efficient to take market exposure in this way.

Appendix to the Report of the Directors

Continued

- Adequate measures must be taken at all times by the custodian in liaison with the Association's staff to ensure that the use of derivative instruments for investment purposes and the exposure as a whole is tracked and monitored, and that all reporting and regulatory requirements can promptly be complied with. General written procedures are agreed and applied to all portfolios. Appropriate records must be maintained to ensure that the statutory and regulatory reporting requirements in force from time to time can be fulfilled.
- The Association also maintains investments in non-discretionary funds, which use derivative instruments as part of their investment strategies. An extract of each fund's prospectus, and specifically its investment policy to include its permitted policy as to derivative instruments, is attached to the investment agreements for these funds.
- The strategic allocation to fixed income and cash are 50% and 15% respectively of the overall investment portfolio. Together, the benchmark duration on the fixed income and cash portfolios is set to approximately match the duration of the Association's claims liabilities.
- More than 80% of the investment portfolio is invested in highly liquid marketable securities which can be liquidated at five days notice or less. Investments in illiquid securities, or those with a possibility of becoming illiquid, are generally avoided.
- The Association has significant credit line facilities with major banks. These have historically not been utilised but remain available for use in exceptional circumstances.

The Association's procedures concerning financial and investment risks including derivative transactions are:

- Approval of the use of derivative transactions: the Boards of the Association and its subsidiary companies are responsible for selecting portfolios which will be permitted to use derivatives and for approving the investment guidelines applicable to these portfolios, which cover the use of derivatives as well as other instruments.
- Overall review of compliance by the Association: the respective investment managers report to the Association in detail monthly and in summary form on a weekly basis. These reports are reviewed to ensure their reasonableness generally, and compliance with the investment guidelines in particular, and are discussed with these managers as appropriate.
- Monthly detailed compliance checking by the custodian of the investment portfolios which has a contractual responsibility to ensure compliance by each portfolio manager with the investment guidelines and to report any deviations.

(d) Liquidity risk

Liquidity risk is the risk that the Association will encounter difficulty in meeting obligations associated with financial liabilities, in particular because its assets cannot be liquidated at short notice. Liquidity is an important consideration and is managed in several ways, the most important of which are:

(e) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates, i.e. in a currency other than the functional currency in which they are measured. Currency risk does not arise from financial instruments denominated in the functional currency.

The Association's overall investment portfolio has a benchmark currency profile which approximates to that of the Association's historical claims liabilities. Thus sharp currency movements are effectively hedged. Determining the currency exposure within the claims liabilities is an area where exact measurement is not possible. However, by monitoring historical payment patterns and recording the currency exposure within figured claims reserves, it is possible to determine a measure of the currency risk and to determine the effectiveness of the currency hedge.

(f) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Association is exposed to credit risk are:

- Reinsurers' share of insurance liabilities,
- Amounts due from reinsurers in respect of claims already paid,
- Amounts due from policyholders.

The Association is also exposed to credit risk through its investing activities, as described above. The investment policy of the Association acts to avoid unacceptable credit risk including counterparty risk for investment transactions.

Although reinsurance is used to manage insurance risk, this does not, however, discharge the Association's liability as insurer. If a reinsurer fails to pay a claim, the Association may remain liable for the payment to the policyholder. The strength of the reinsurance programme is fundamental to the management of the Association's business and the financial standing and spread of reinsurance security is kept constantly under review.

The Association monitors the debts of policyholders, who are Members of the Association. No one policyholder or group of policyholders is material enough to represent a high-risk individual credit exposure. Strong controls are maintained over debtors and appropriate action is taken where potential credit risk is identified, which may include the exercise of the Association's right to terminate insurance cover with retrospective effect.



PricewaterhouseCoopers
Société à responsabilité limitée
400, Route d'Esch
B.P. 1443
L-1014 Luxembourg
Telephone +352 494848-1
Facsimile +352 494848-2900
www.pwc.com/lu
info@lu.pwc.com

Audit Report

To the Members of
**The West of England Ship Owners
Mutual Insurance Association (Luxembourg)**

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of The West of England Ship Owners Mutual Insurance Association (Luxembourg) which comprise the consolidated balance sheet as at 20 February 2010, the income and expenditure account for the year then ended, a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the identified basis of accounting as set out in Note 1 to the consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the 'Réviseur d'entreprises agréé'

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the 'Commission de Surveillance du Secteur Financier'. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the 'Réviseur d'entreprises agréé', including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk

assessments, the 'Réviseur d'entreprises agréé' considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements give a true and fair view of the financial position of The West of England Ship Owners Mutual Insurance Association (Luxembourg) as of 20 February 2010 and of the results of its operations for the year then ended in accordance with the Accounting Policies adopted by the Association as presented in Note 1.

In order for these consolidated financial statements to be prepared on a basis consistent with accounting policies adopted by other members of the International Group of P&I Clubs, investments are stated at market value and, as described in Notes 1 and 2 and for the reasons stated therein, land and buildings are stated at estimated market value. At 20 February 2010, and previously, land and buildings were revalued, and the change in the total revaluation surplus transferred to the revaluation reserve. Luxembourg law requires investments and land and buildings to be stated at the lower of cost and market value, and for buildings to be depreciated over their estimated useful lives. Statutory consolidated financial statements in conformity with Luxembourg law (using the option of lower of cost and market value for the valuation of investments) which differ from these consolidated financial statements only in these respects and which do not include Notes 16, 17 and 18, (which relate to the Class 1 and 2 policy year positions and the Average Expense Ratio), are filed with the Commissariat Aux Assurances and the Registre de Commerce in Luxembourg, and our audit opinion thereon is unqualified.

Report on other legal and regulatory requirements

The Report of Directors, which is the responsibility of the Board of Directors, is in accordance with the consolidated financial statements.

PricewaterhouseCoopers S.à r.l.
Represented by



Mervyn R. Martins

Luxembourg, 19 May 2010

Consolidated balance sheet

At 20 February 2010

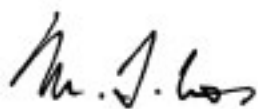
	Note	2010 \$'000	2009 \$'000
Assets			
Investments			
Land and buildings	2	36,558	30,777
Other financial investments	3	442,781	425,460
		479,339	456,237
Reinsurers' share of technical provisions			
Claims outstanding	9	246,942	204,708
Debtors			
Member debtors		13,301	16,273
Reinsurance debtors		4,589	5,531
Additional calls not yet charged	4	71,413	146,367
Other debtors	5	62,410	64,315
		151,713	232,486
Other assets			
Tangible assets	6	279	342
Cash at bank and in hand		47,760	22,254
		48,039	22,596
Prepayments and accrued income			
Accrued interest		1,615	2,527
Other prepayments and accrued income		373	695
		1,988	3,222
Total assets		928,021	919,249

The accompanying notes are an integral part of these financial statements

	Note	2010 \$'000	2009 \$'000
Liabilities			
Capital and reserves			
Reserve deposit fund	1, 15	18,850	18,450
Revaluation reserve	2, 15	9,652	5,359
Class 1 policy year reserve account	15	25,910	2,805
Income and expenditure account	15	114,697	134,160
		169,109	160,774
Technical provisions			
Claims outstanding	9	703,243	643,065
Creditors			
Member creditors		12,008	13,005
Reinsurance creditors		6,931	6,279
Other creditors	7	36,730	96,126
		55,669	115,410
Total liabilities		928,021	919,249

Chairman

Director




19 May 2010

The accompanying notes are an integral part of these financial statements

Consolidated income and expenditure account

For the year ended 20 February 2010

	Note	2010 \$'000	2010 \$'000	2009 \$'000	2009 \$'000
Technical account					
Earned premiums, net of reinsurance					
Gross premiums written		239,589		408,549	
Outward reinsurance premiums		(45,641)		(44,967)	
Earned premiums, net of reinsurance	8		193,948		363,582
Allocated investment return transferred from the non-technical account			62,299		(80,891)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(256,205)		(239,704)	
Reinsurers' share		59,678		34,317	
Net claims paid	9	(196,527)		(205,387)	
Change in the provision for claims					
Gross amount		(60,178)		(18,622)	
Reinsurers' share		42,234		(7,907)	
Change in the net provision for claims	9	(17,944)		(26,529)	
Claims incurred, net of reinsurance			(214,471)		(231,916)
Operating expenses	10		(35,157)		(49,917)
Balance on the technical account			6,619		858
Non-technical account					
Balance on the technical account			6,619		858
Investment income	12		88,395		81,528
Investment charges	12		(26,096)		(162,419)
Allocated investment return transferred to the technical account			(62,299)		80,891
Surplus on ordinary activities before tax			6,619		858
Tax on ordinary activities	13		(2,663)		1,997
Surplus on ordinary activities after tax			3,956		2,855

The accompanying notes are an integral part of these financial statements

Notes to the financial statements

For the year ended 20 February 2010

1 Accounting policies

General

The West of England Ship Owners Mutual Insurance Association (Luxembourg) is established in the Grand Duchy of Luxembourg as a mutual insurance association. As a mutual association under Luxembourg law, the Association has no share capital or subscribed capital.

In 1995, to comply with European Union and Luxembourg minimum insurance solvency margin requirements, a reserve fund, the Reserve deposit fund, was established, to which allocations are made periodically to meet the minimum solvency levels required.

Presentation of financial statements

These financial statements have been prepared in conformity with the law of 8 December 1994 (as amended) on financial statements with respect to insurance and reinsurance undertakings except for the fact that investments (including land and buildings) are not stated at cost but at valuation, and with the significant accounting policies generally adopted by the members of the International Group of P&I Clubs. A summary of the more important accounting policies is set out below.

The West of England Ship Owners Mutual Insurance Association (London) Limited

The financial statements have been drawn up to incorporate the terms of an agreement dated 18 October 1985 whereby the Association has reinsured the totality of the risks insured by The West of England Ship Owners Mutual Insurance Association (London) Limited up to 20 February 1986 for Class 2 and 20 February 1987 for Classes 3 and 4. The risks under Classes 3 and 4 may now be regarded as fully run off. In accordance with the agreement, the assets of The West of England Ship Owners Mutual Insurance Association (London) Limited have been held by that Association in trust for The West of England Ship Owners Mutual Insurance Association (Luxembourg) throughout the financial year.

Basis of consolidation

The consolidated financial statements have been prepared in US Dollars and incorporate the assets and liabilities of the Association and its group undertakings, listed below, at 20 February 2010 and the results of the year ended on that date. The group undertakings are 100% owned and are fully consolidated.

Group undertakings	Incorporated
Hydra Insurance Company Limited – The West of England Hydra Cell	Bermuda
International Shipowners Reinsurance Company SA	Luxembourg
The West of England Reinsurance (Hamilton) Limited	Bermuda
The West of England Ship Owners Insurance Services Limited	United Kingdom
West of England Insurance Services (Luxembourg) SA	Luxembourg

Classes and policy years

Members are insured in accordance with the Rules of the Association. Separate records are maintained for all Classes of insurance. Mutual policy balance accounts are maintained, individual accounts being held for all open policy years for each Class. The accumulated balance for all policy years is available, if required, for any exceptional future charges.

Calls and reinsurance premiums are credited or charged to the policy year to which cover relates except in the case of the reinsurance transactions with The West of England Ship Owners Mutual Insurance Association (London) Limited which are maintained separately. Claims are included in policy years by reference to the date of the incident and reinsurance recoveries are matched accordingly. General and management expenditure is allocated to Classes on the basis of calls and premium income and is charged to the policy year in which it is incurred. Investment income is allocated to policy years as determined by the Directors.

Notes to the financial statements

Continued

1 Accounting policies (continued)

Premiums

Gross premiums consist of calls, premiums and releases invoiced in respect of policies incepting prior to the balance sheet date together with movements in additional calls not yet charged which have been notified to Members. Reinsurance premiums are charged to the consolidated income and expenditure account on an accruals basis.

Debtors

Full provision is made for amounts owing which are more than one year in arrears and in respect of other balances considered to be doubtful.

Land and buildings

Land and buildings are stated at estimated market value, based on periodic evaluations by independent valuers. Buildings are amortised over their useful life on a straight-line basis, taking into account their residual value. The residual value and economic useful life of buildings are reassessed by the Directors on a periodic basis. Leasehold properties are written down over the period of the lease.

Investments

Investments are stated at market value or at values provided by independent brokers or managers, except for interest rate swaps and over-the-counter options which are valued at their intrinsic value and dealer-supplied valuations, respectively.

Investment income

Income from investments is included, together with the related tax credit, in the non-technical account on an accruals basis. Account is taken of dividend income when the related investment is declared 'ex-dividend'.

Transfer of investment return

A transfer of investment return, including unrealised exchange gains and losses, expenses and charges, is made from the non-technical account to the technical account to reflect the return made on those assets directly attributable to the insurance business.

Claims incurred

Claims incurred comprises claims and related costs, including claims handling expenses, approved by the Directors and advances made on account of claims during the year, including the Association's share of claims under pooling agreements, and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Credit is taken for reinsurance recoveries due in respect of claims accounted for at the balance sheet date.

Claims outstanding

Statistical projections are calculated for claims outstanding at the balance sheet date based upon paid claims and estimates of notified outstanding claims. Provision is made for future claims handling expenses. Significant delays may occur before claims are settled and, accordingly, a substantial measure of experience and judgement is required in assessing the ultimate cost of outstanding and unnotified claims, which cannot be known with certainty at the balance sheet date.

Expenses

General and management expenditure is charged to the consolidated income and expenditure account on an accruals basis.

Pension costs

Defined benefit pension costs are charged to the income and expenditure account over the service lives of the eligible employees in accordance with the advice of qualified actuaries. Pension obligations relating to defined final salary benefits are determined on a projected unit method. Contributions are charged as an expense in the year of payment.

Tangible assets

Expenditure on significant tangible assets is capitalised and written off over four years in equal annual instalments. Other expenditure is expensed in the year of purchase.

Foreign currencies

Revenue and expense transactions are converted at the rate ruling at the date of the relevant transactions. Assets and liabilities in currencies other than US Dollars are converted to US Dollars at the rate prevailing at the balance sheet date. Exchange differences are analysed between realised and unrealised, and taken to the consolidated income and expenditure account. Exchange movements arising from the retranslation of brought forward reserve balances are taken directly to capital and reserves. Unsettled forward exchange transactions are translated into US Dollars at the forward rate prevailing on the balance sheet date for the remaining term of the contracts. Unrealised profit or loss on hedging transactions is charged in the consolidated income and expenditure account and disclosed as an asset or a liability in the balance sheet.

2 Investments**Land and buildings**

Land and buildings comprise the Association's freehold premises at Tower Bridge Court, London, which are partly occupied by the Association, and a property in Hong Kong which is fully occupied by the Association. The London property was revalued at 20 February 2010 by Dron & Wright at £19.8 million (\$30.6 million) and the Hong Kong property at 20 February 2010 by Jones Lang LaSalle Ltd at HK\$46.6 million (\$6.0 million). The resulting surpluses on revaluation were taken to the revaluation reserve.

If the properties were to be presented in conformity with Luxembourg law then the cost, depreciation and net book values would be as follows:

	2010 \$'000	2009 \$'000
Cost	30,004	30,004
Currency fluctuation adjustments	(1,812)	(3,199)
Accumulated depreciation brought forward	(4,753)	(4,357)
Depreciation charge for the year	(396)	(396)
Net book value	23,043	22,052

In determining the accumulated depreciation and depreciation charge above, which is based on an expected economic life of fifty years for the London property, no account has been taken of the Directors' reassessment of the useful life and residual values of the buildings, nor of any reassessment of the relative values of land and buildings arising from the revaluation carried out at 20 February 2010.

3 Other financial investments

	2010 \$'000	2010 \$'000	2009 \$'000	2009 \$'000
	Market Value	Cost	Market Value	Cost
Shares and other variable yield securities and units in unit trusts	151,636	121,828	105,092	115,149
Debt securities and other fixed interest securities	291,145	283,281	313,368	314,914
Deposits with credit institutions	–	–	7,000	7,000
	442,781	405,109	425,460	437,063

Notes to the financial statements

Continued

3 Other financial investments (continued)

Debt securities include investments in collective investment schemes, the underlying investments of which are fixed interest securities.

Certain of the Association's investment managers have authority to invest, to a limited extent, for hedging purposes in derivative financial instruments. Derivatives can be broken down as follows:

	2010 \$'000	2010 \$'000	2010 \$'000	2009 \$'000	2009 \$'000	2009 \$'000
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
Forward foreign exchange	37,327	1,251	637	14,786	281	1,043
Futures contracts	92,388	593	39	96,847	915	145
Interest rate swaps and credit default swaps	52,658	1,343	1,179	159,699	7,268	8,550
Options and warrants	58,210	357	65	67,031	1,595	337
Total at 20 February	240,583	3,544	1,920	338,363	10,059	10,075

At 20 February 2010 forward foreign exchange positions comprise net long positions in Chinese renminbi, Australian dollars and other currencies for a total value of \$19.0 million (2009 \$7.0 million) and net short positions in euros, Canadian dollars and other currencies for a total value of \$18.4 million (2009 \$7.8 million).

At 20 February 2010 futures contracts include US Dollar contracts for a notional commitment of \$59.1 million (2009 \$59.1 million) and other contracts denominated in Japanese yen and euros.

At 20 February 2010 swap contracts include US Dollar contracts for a notional commitment of \$43.8 million (2009 \$139.4 million) and other contracts denominated in euros, Brazilian real and Canadian dollars.

Derivative instruments are mainly used in the fixed income and short-term portfolios which represent 38% (2009 75%) of the total investments.

The Association itself and through its subsidiaries, International Shipowners Reinsurance Company SA and The West of England Reinsurance (Hamilton) Limited, has pledged certain investments as security for bank guarantees and other facilities with two banks. At 20 February 2010, the secured facilities for guarantees on behalf of Members and for security under the International Group of P&I Clubs Designated Reserves procedures, including an agreed margin where appropriate, amounted to \$89.7 million (2009 \$67.7 million) and guarantees issued against those facilities totalled \$39.2 million (2009 \$40.4 million). Total bank guarantees and letters of credit issued on behalf of the Association at 20 February 2010, including both the above and issuances against facilities unsecured by pledged investments, were:

	2010 \$ million	2009 \$ million
On behalf of Members	37.4	39.9
The International Group of P&I Clubs Designated Reserves procedures	22.7	22.7
Letters of credit and other guarantees	5.4	5.4

For guarantees issued on behalf of Members for claims, appropriate balance sheet provision has been made within claims outstanding.

4 Additional calls not yet charged	2010 \$'000	2009 \$'000
Class 1 (Note 16)	69,588	144,607
Class 2 (Note 17)	1,825	1,760
	71,413	146,367

5 Other debtors	2010 \$'000	2009 \$'000
Tax debtors	79	900
Mortgages	662	880
Investment debtors	60,852	61,715
Dividends receivable	44	50
Other debtors	773	770
	62,410	64,315

The mortgages are in respect of loans to Directors of West of England Insurance Services (Luxembourg) SA, a subsidiary, for house improvement or purchase. They are secured on the respective properties and other assets, have an interest rate of 5% (2009 5%) and are repayable over various periods up to the end of each Director's service.

Tax debtors include \$ nil deferred tax (2009 \$825,000) arising on taxable losses to be carried forward and offset against future taxable gains.

6 Tangible assets	2010 \$'000	2009 \$'000
Cost		
At beginning of year	894	904
Additions	155	237
Disposals	(298)	(247)
At end of year	751	894
Depreciation		
At beginning of year	552	594
Provided during year	142	164
Disposals	(222)	(206)
At end of year	472	552
Net Book Value	279	342

Tangible assets consist of motor vehicles.

Notes to the financial statements

Continued

7 Other creditors	2010 \$'000	2009 \$'000
UK Corporation Tax	1,798	482
Luxembourg municipal and state taxes	1,232	1,003
Accrued expenses	917	601
Investment creditors	24,880	80,674
Other creditors	7,903	13,366
	36,730	96,126

UK Corporation Tax includes \$288,000 (2009 \$283,000) of deferred tax arising on timing differences and \$1,246,000 (2009 \$ nil) deferred tax arising on unrealised gains on equity investments. All other creditors are payable within one year.

8 Earned premiums, net of reinsurance				2010 \$'000
	Class 1	Class 2	WoE Hamilton	Total
Gross premiums by policy year				
Policy year 2009/10	198,520	7,291	–	205,811
Policy year 2008/09	57,743	222	–	57,965
Policy year 2007/08	49,570	906	–	50,476
Other	214	77	–	291
Total gross premiums	306,047	8,496	–	314,543
Movement in additional calls not yet charged (Note 4)	(75,019)	65	–	(74,954)
Reinsurance premiums	231,028	8,561	–	239,589
	(46,090)	(1,022)	1,471	(45,641)
Earned premiums, net of reinsurance	184,938	7,539	1,471	193,948

				2009 \$'000
	Class 1	Class 2	WoE Hamilton	Total
Gross premiums by policy year				
Policy year 2008/09	224,511	7,275	–	231,786
Policy year 2007/08	24,028	162	–	24,190
Policy year 2006/07	29,977	944	–	30,921
Other	(137)	44	–	(93)
Total gross premiums	278,379	8,425	–	286,804
Movement in additional calls not yet charged	121,771	(26)	–	121,745
Reinsurance premiums	400,150	8,399	–	408,549
	(48,641)	(986)	4,660	(44,967)
Earned premiums, net of reinsurance	351,509	7,413	4,660	363,582

Direct insurance premiums are all classified as marine, aviation and transport. All direct insurance contracts were concluded in a member state of the European Union other than the member state of the Association's principal office.

9 Insurance claims and loss adjustment expenses	2010 \$'000	2010 \$'000	2010 \$'000	2010 \$'000	2010 \$'000
	Class 1	Class 2	Reinsurance of WoE (London)	WoE Hamilton	Total
Gross claims paid and loss adjustment expenses					
– Members' claims	221,833	7,850	35	–	229,718
– International Group of P&I Clubs	26,487	–	–	–	26,487
	248,320	7,850	35	–	256,205
Reinsurance recoveries on claims paid					
– Recoveries from other members of the International Group of P&I Clubs	(34,029)	–	–	–	(34,029)
– Recoveries from the Group Excess Loss reinsurance	(4,856)	–	–	–	(4,856)
– Other reinsurances and WoE Hamilton	(21,064)	(914)	–	1,185	(20,793)
Reinsurance recoveries on claims paid	(59,949)	(914)	–	1,185	(59,678)
Net claims paid and loss adjustment expenses	188,371	6,936	35	1,185	196,527
Insurance liabilities, gross	685,454	17,756	33	–	703,243
Reinsurers' share of insurance liabilities					
– Recoveries from other members of the International Group of P&I Clubs	(49,008)	–	–	–	(49,008)
– Recoveries from the Group Excess Loss reinsurance	(52,593)	–	–	–	(52,593)
– Other reinsurances and WoE Hamilton	(158,332)	(2,887)	–	15,878	(145,341)
Reinsurers' share of insurance liabilities	(259,933)	(2,887)	–	15,878	(246,942)
Net insurance liabilities carried forward	425,521	14,869	33	15,878	456,301
Net insurance liabilities brought forward	410,856	16,610	33	10,858	438,357
Change in the net provision for insurance liabilities	14,665	(1,741)	–	5,020	17,944
Net insurance claims and loss adjustment expenses	203,036	5,195	35	6,205	214,471
			2010 \$'000 Gross	2010 \$'000 Reinsurance	2010 \$'000 Net
Current year claims and loss adjustment expenses			221,248	(16,994)	204,254
Movement in cost of prior year claims and loss adjustment expenses			95,135	(84,918)	10,217
Total insurance claims and loss adjustment expenses			316,383	(101,912)	214,471
Claims paid and loss adjustment expenses			256,205	(59,678)	196,527
Change in the provision for insurance liabilities			60,178	(42,234)	17,944
Total insurance claims and loss adjustment expenses			316,383	(101,912)	214,471

Claims outstanding includes \$88.6 million (2009 \$93.5 million) in respect of other clubs' claims through the International Group Pool, including appropriate provision for claims incurred but not reported. Recoveries shown include amounts statistically projected as recoverable against claims incurred but not reported.

Notes to the financial statements

Continued

9 Insurance claims and loss adjustment expenses (continued)	2009	2009	2009	2009	2009
	\$'000	\$'000	\$'000	\$'000	\$'000
	Class 1	Class 2	Reinsurance of WoE (London)	WoE Hamilton	Total
Gross claims paid and loss adjustment expenses					
– Members' claims	205,891	7,270	58	–	213,219
– International Group of P&I Clubs	26,485	–	–	–	26,485
	232,376	7,270	58	–	239,704
Reinsurance recoveries on claims paid					
– Recoveries from other members of the International Group of P&I Clubs	(21,344)	–	–	–	(21,344)
– Recoveries from the Group Excess Loss reinsurance	(6,195)	–	–	–	(6,195)
– Other reinsurances and WoE Hamilton	(19,906)	(2,033)	–	15,161	(6,778)
Reinsurance recoveries on claims paid	(47,445)	(2,033)	–	15,161	(34,317)
Net claims paid and loss adjustment expenses	184,931	5,237	58	15,161	205,387
Insurance liabilities, gross	625,665	17,367	33	–	643,065
Reinsurers' share of insurance liabilities					
– Recoveries from other members of the International Group of P&I Clubs	(56,709)	–	–	–	(56,709)
– Recoveries from the Group Excess Loss reinsurance	(38,490)	–	–	–	(38,490)
– Other reinsurances and WoE Hamilton	(119,610)	(757)	–	10,858	(109,509)
Reinsurers' share of insurance liabilities	(214,809)	(757)	–	10,858	(204,708)
Net insurance liabilities carried forward	410,856	16,610	33	10,858	438,357
Net insurance liabilities brought forward	372,894	16,449	55	22,430	411,828
Change in the net provision for insurance liabilities	37,962	161	(22)	(11,572)	26,529
Net insurance claims and loss adjustment expenses	222,893	5,398	36	3,589	231,916
			2009 \$'000 Gross	2009 \$'000 Reinsurance	2009 \$'000 Net
Current year claims and loss adjustment expenses			201,181	(6,500)	194,681
Movement in cost of prior year claims and loss adjustment expenses			57,145	(19,910)	37,235
Total insurance claims and loss adjustment expenses			258,326	(26,410)	231,916
Claims paid and loss adjustment expenses			239,704	(34,317)	205,387
Change in the provision for insurance liabilities			18,622	7,907	26,529
Total insurance claims and loss adjustment expenses			258,326	(26,410)	231,916

10 Operating expenses	2010 \$'000	2009 \$'000
Directors' fees	339	343
Audit and regulatory fees	378	512
Other expenses	11,762	14,721
Depreciation	377	467
Loss / (profit) on disposal of fixed assets	18	(33)
Administrative expenses	12,874	16,010
Acquisition costs	22,283	33,907
	35,157	49,917

Included within acquisition costs is \$13.9 million (2009 \$24.3 million) in respect of commission.

11 Staff costs

Staff costs disclosed below are in respect of the employees and Directors of West of England Insurance Services (Luxembourg) SA, together with the costs of the five (2009 five) staff directly employed by the Association and International Shipowners Reinsurance Company SA. The total costs for all staff are:

	2010 \$'000	2009 \$'000
Wages and salaries	15,778	16,490
Other staff related costs	1,068	1,427
Social security costs	1,432	1,966
Other pension costs	8,384	11,394
	26,662	31,277

The average weekly number of employees during the year, by department, was:

	2010 Number	2009 Number
Claims	74	73
Underwriting	27	27
Administration	39	43
	140	143

The majority of the staff is included in a defined benefit pension scheme. From 30 June 2004 the scheme was changed from one where benefits provided were based on final salaries to a cash contribution scheme where benefits are based on contributions linked to annual salaries and inflation.

The assets of the scheme are held in a separate fund, administered by trustees, and are invested independently of the Company's assets. Funding requirements are assessed by an independent professionally qualified actuary on the basis that the deficit for service up to 30 June 2004 is fully funded by 31 December 2012 and that the cost of benefits for service subsequent to that date is spread over the remaining service period of the staff concerned.

Notes to the financial statements

Continued

11 Staff costs (continued)

At 20 February 2010 the market value of the scheme's assets, on an IAS 19 valuation basis, was £71.8million (\$111.0 million) (2009 £62.3 million/\$89.2 million) and the surplus £2.1 million (\$3.2 million) (2009 a deficit of £1.1 million/\$1.6 million).

The principal assumptions underlying this valuation were an aggregate investment return of 6.90% (5.60%) and a discount rate of 5.8% (6.0%). The discount rate required by IAS 19 is based upon high quality corporate bond yields with a duration consistent with that of the scheme liabilities. The average duration of the scheme's liabilities is approximately 23 years.

The rate at which the Company funds the scheme has been set as a result of a valuation using government bond yields and mortality assumptions in line with required scheme valuation practice, with a view to fully funding the scheme on that basis by 31 December 2012, in line with a recovery plan approved by the UK pensions regulator. The Directors intend to maintain the rate of funding in order to meet the requirements of the plan.

A small number of staff have other pension arrangements provided.

12 Investment income	2010 \$'000	2009 \$'000
Income from land and buildings	1,249	1,440
Investment income	9,634	11,321
Gains on realisation of investments	21,055	49,610
Unrealised gains on investments	48,829	1,559
Realised exchange gains	1,685	16,494
Unrealised forward currency gains	1,472	–
Unrealised exchange gains	4,471	1,104
Total investment income	88,395	81,528
Investment management expenses	(1,679)	(2,107)
Losses on realisation of investments	(17,876)	(63,959)
Unrealised losses on investments	(1,903)	(71,461)
Realised exchange losses	(3,041)	(173)
Unrealised exchange losses	(1,597)	(24,719)
Total investment charges	(26,096)	(162,419)
Total investment return	62,299	(80,891)

The investment return has been attributed as follows:

Class 1	50,651	(66,794)
Class 2	1,406	(1,568)
The West of England Reinsurance (Hamilton) Limited	9,842	(12,929)
	61,899	(81,291)
Reserve deposit fund	400	400
	62,299	(80,891)

13 Taxation	2010	2009
	\$'000	\$'000
Luxembourg municipal and state taxes	394	17
UK Corporation Tax:		
Current tax on income for the period	2,524	(1,722)
Adjustment in respect of prior periods	75	16
Deferred tax	(330)	(308)
	2,269	(2,014)
	2,663	(1,997)

14 Summarised income and expenditure account by Class						2010
						\$'000
	Class 1	Class 2	Reinsurance of WoE (London)	WoE Hamilton	Total	
Earned premiums, net of reinsurance (Note 8)	184,938	7,539	–	1,471	193,948	
Claims incurred, net of reinsurance (Note 9)	(203,036)	(5,195)	(35)	(6,205)	(214,471)	
Net operating expenses (Note 10)	(33,413)	(1,678)	–	(66)	(35,157)	
	(51,511)	666	(35)	(4,800)	(55,680)	
Investment return, net of tax (Notes 12 and 13)	48,460	1,334	–	9,842	59,636	
Surplus/(deficit) for the financial year	(3,051)	2,000	(35)	5,042	3,956	
						2009
						\$'000
	Class 1	Class 2	Reinsurance of WoE (London)	WoE Hamilton	Total	
Earned premiums, net of reinsurance (Note 8)	351,509	7,413	–	4,660	363,582	
Claims incurred, net of reinsurance (Note 9)	(222,893)	(5,398)	(36)	(3,589)	(231,916)	
Net operating expenses (Note 10)	(47,994)	(1,857)	–	(66)	(49,917)	
	80,622	158	(36)	1,005	81,749	
Investment return, net of tax (Notes 12 and 13)	(64,456)	(1,509)	–	(12,929)	(78,894)	
Dividend paid by WoE Hamilton to parent	20,000	–	–	(20,000)	–	
	(44,456)	(1,509)	–	(32,929)	(78,894)	
Surplus/(deficit) for the financial year	36,166	(1,351)	(36)	(31,924)	2,855	

Notes to the financial statements

Continued

15 Reserves					2010 \$'000
	Reserve deposit fund	Revaluation reserve	Class 1 policy year reserve account	Income and expenditure account	Total reserves
As at 20 February 2009	18,450	5,359	2,805	134,160	160,774
Revaluation	–	3,911	–	–	3,911
Exchange	–	382	–	86	468
Surplus for financial year (Note 14)	–	–	–	3,956	3,956
Transfers from income and expenditure account	400	–	48,105	(48,505)	–
Release from reserve	–	–	(25,000)	25,000	–
At 20 February 2010	18,850	9,652	25,910	114,697	169,109
					2009 \$'000
	Reserve deposit fund	Revaluation reserve	Class 1 policy year reserve account	Income and expenditure account	Total reserves
As at 20 February 2008	18,050	20,591	48,878	86,098	173,617
Revaluation	–	(10,226)	–	–	(10,226)
Exchange	–	(5,006)	–	(466)	(5,472)
Deficit for financial year (Note 14)	–	–	–	2,855	2,855
Transfers from income and expenditure account	400	–	(46,073)	45,673	–
At 20 February 2009	18,450	5,359	2,805	134,160	160,774

The Class 1 policy year reserve account represents all Class 1 investment income not yet allocated to specific policy years by the Directors with the exception of amounts relating to unrealised net gains on land and buildings which are held in the revaluation reserve.

Reserves by Class	2010 \$'000	2009 \$'000
Class 1:		
– Open years (Note 16)	59,036	59,573
– Closed years	35,227	27,333
– Hydra Insurance Company Ltd	(2,383)	4,146
	91,880	91,052
Class 2:		
– Open years (Note 17)	3,551	2,997
– Closed years	15,746	14,197
	19,297	17,194
Other reserves	57,932	52,528
Total reserves at 20 February	169,109	160,774

Other reserves consist of reserves not specific to Class including The West of England Reinsurance (Hamilton) Ltd and the Reserve deposit fund.

15 Reserves (continued)	2010	2009
Revaluation reserve by Class	\$'000	\$'000
The balance on the revaluation reserve is attributed to Classes as follows:		
Class 1	9,234	5,037
Class 2	380	284
Other	38	38
	9,652	5,359

16 Class 1 Policy Year position at 20 February 2010	\$'000				
	2007/08	2008/09	2009/10	Unallocated investment income	Total
Calls and premiums	282,679	282,254	198,519		763,452
Future additional calls	–	34,548	35,040		69,588
Gross premiums	282,679	316,802	233,559		833,040
Reinsurance premiums	(58,298)	(54,790)	(53,873)		(166,961)
Acquisition costs	(24,938)	(27,855)	(22,156)		(74,949)
Net premiums	199,443	234,157	157,530		591,130
Investment income	20,000	–	25,000	35,144	80,144
Net income	219,443	234,157	182,530	35,144	671,274
Net claims paid	(158,691)	(80,667)	(30,981)		(270,339)
Net claims outstanding	(41,938)	(107,467)	(151,488)		(300,893)
Net claims incurred	(200,629)	(188,134)	(182,469)		(571,232)
Administration expenses	(14,535)	(14,670)	(11,801)		(41,006)
Net expenditure	(215,164)	(202,804)	(194,270)		(612,238)
Forecast balance on Class 1 open years at 20 February 2010	4,279	31,353	(11,740)	35,144	59,036

Based on the position at 20 February 2010 a resolution will be put to the Board of Directors at their meeting on 19 May 2010 to close the 2007/08 policy year. In addition, under the same resolution, the Board of Directors will be asked to allocate \$25 million to policy year 2009/10 from the Class 1 policy year reserve account.

Future additional calls represent 22.5% for the 2008/09 policy year (due 20 August 2010) and 30% for Policy Year 2009/10 (due 20 August 2010). Additional calls are chargeable on the advance call excluding the charge to Members for The International Group Excess of Loss Reinsurance premium. In addition, release calls have been set at 15% for policy year 2007/08, at 20% for policy year 2008/09 and at 30% for policy year 2009/10. The estimated yields of these releases, if charged, would be \$21.4 million, \$30.9 million and \$43.1 million respectively. No account of these releases has been taken in the policy year figures above. Under the resolution referred to above, the Board of Directors will be asked to review these releases for the remaining open years and to set them at 5% for policy year 2008/09 and 30% for policy year 2009/10. The estimated yields of these releases would be \$7.7 million and \$43.1 million respectively if charged.

Notes to the Financial Statements

Continued

16 Class 1 Policy Year position at 20 February 2010 (continued)

The following disclosure is in conformity with the agreed accounting standards of the International Group of Protection and Indemnity Associations:

	2007/08	2008/09	2009/10
(a) Disclosure relating to calls	\$'000	\$'000	\$'000
Additional calls and releases already charged	83,085	70,845	8,216
Estimated product of a further 10% additional call	14,200	15,500	14,400

The additional call products shown take account of calls already charged, and Members released, at 20 February 2010 and therefore do not represent 10% of the original advance call for each year. The additional call is based on the advance call excluding the charge to Members for The International Group Excess of Loss Reinsurance premium.

	Closed years	2007/08	2008/09	2009/10
(b) Disclosure relating to claims and reinsurance recoveries	\$'000	\$'000	\$'000	\$'000
Claims paid – own business		(189,644)	(71,675)	(27,865)
Claims paid – other clubs' Pool claims		(31,645)	(10,119)	(3,116)
Gross claims paid		(221,289)	(81,794)	(30,981)
Recoveries from the Pool		45,087	–	–
Recoveries from the Group Excess Loss reinsurance		–	–	–
Recoveries from The West of England Reinsurance (Hamilton)		961	–	–
Recoveries from other reinsurances		7,046	–	–
Reinsurance recoveries on claims paid		53,094	–	–
Recoveries from Hydra Insurance Company Ltd		9,504	1,127	–
Reinsurance recoveries on claims paid (including Hydra)		62,598	1,127	–
Outstanding claims – own business	(212,838)	(115,362)	(117,837)	(150,783)
Outstanding claims – other clubs' Pool claims	(38,764)	(11,107)	(6,880)	(31,883)
Gross outstanding claims (Note 9)	(251,602)	(126,469)	(124,717)	(182,666)
Recoveries from the Pool	23,776	22,195	1,537	1,500
Recoveries from the Group Excess Loss reinsurance	36,105	10,183	–	–
Recoveries from Hydra Insurance Company Ltd	6,203	8,238	2,703	13,350
Recoveries from The West of England Reinsurance (Hamilton)	7,586	5,585	1,047	833
Recoveries from other reinsurances	77,493	38,330	11,963	15,495
Reinsurance recoveries on outstanding claims	151,163	84,531	17,250	31,178
Recoveries from Hydra Insurance Company Ltd	(5,605)	(2,531)	(2,703)	(13,350)
Reinsurance recoveries on outstanding claims (Note 9)	145,558	82,000	14,547	17,828

The figure for outstanding claims includes appropriate provision for claims incurred but not reported and future claims handling expenses. Recoveries include amounts statistically projected as recoverable against claims incurred but not reported. Recoveries from the Pool include the International Group's retained share of the Excess of Loss programme.

17 Class 2 Policy Year position at 20 February 2010							\$'000
	2005/06	2006/07	2007/08	2008/09	2009/10	Unallocated investment income	Total
Calls & premiums	8,746	8,595	8,066	7,497	7,291		40,195
Future additional calls	–	–	–	881	944		1,825
Gross premiums	8,746	8,595	8,066	8,378	8,235		42,020
Reinsurance premiums	(1,356)	(1,117)	(953)	(997)	(1,000)		(5,423)
Acquisition costs	(683)	(605)	(590)	(635)	(687)		(3,200)
Net premiums	6,707	6,873	6,523	6,746	6,548		33,397
Investment income	75	–	–	–	–	6,695	6,770
Net income	6,782	6,873	6,523	6,746	6,548	6,695	40,167
Net claims paid	(5,098)	(3,801)	(3,747)	(3,223)	(1,240)		(17,109)
Net claims outstanding	(477)	(686)	(2,420)	(3,880)	(6,110)		(13,573)
Net claims incurred	(5,575)	(4,487)	(6,167)	(7,103)	(7,350)		(30,682)
Administration expenses	(1,202)	(1,225)	(1,316)	(1,221)	(970)		(5,934)
Net expenditure	(6,777)	(5,712)	(7,483)	(8,324)	(8,320)		(36,616)
Forecast balance on Class 2 open years at 20 February 2010	5	1,161	(960)	(1,578)	(1,772)	6,695	3,551

Investment income includes all amounts earned up to 20 February 2010. Based on the position at 20 February 2010 a resolution will be put to the Board of Directors at their meeting on 19 May 2010 to close the 2005/06 policy year following an allocation of \$75 thousand from investment income.

Future additional calls represents 20% for each of the 2008/09 and 2009/10 policy years, due 20 August 2010 and 2011 respectively. In addition, releases have been set at 15% for all open years with the exception of policy year 2009/10 which is set at 30%. No account of these releases has been taken in the policy year figures above.

18 Average Expense Ratio

In accordance with Schedule 3 of the International Group Agreement 2008, all members of the International Group of P&I Clubs are required to prepare and disclose an 'average expense ratio' which expresses expenses as a percentage of total income, calculated as a five year moving average. The figure for the period ended 20 February 2010 is 13.79% (2009 13.82%).