Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of The West of England Ship Owners Mutual Insurance Association (Luxembourg) ('the Association') for the year ended 20 February 2011.

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 and Hong Kong and a representative office in 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 the Association's Class 2 business on an 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 land and buildings are stated at the lower of historic amortised cost or market value and that other investments are stated at the lower of amortised 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 42 to 59 with the principal accounting policies summarised on pages 45 to 47 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 $8.7 million (2010 $4.0 million surplus) before the transfer to the Reserve Deposit Fund of $0.4 million (2010 $0.4 million) and after a net transfer to the Class 1 Policy Year Reserve Account of $55.4 million (2010 $48.1 million). In addition the Revaluation Reserve increased by $4.8 million (2010 $4.3 million increase). Total reserves at 20 February 2011 were therefore $182.7 million (2010 $169.1 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 8, held office throughout the year under review with the exception of Mrs B Aagaard-Svendsen who joined the Board with effect from 12 August 2010, Mr F G Sarre with effect from 8 March 2011, Mr M O Al-Otaibi with effect from 23 March 2011 and Mr N X Notias with effect from 28 March 2011.

In addition, Mr E Kromann retired from the Board with effect from 19 May 2010, Mr Chen Hongsheng with effect from 1 July 2010, Mr L Criel and Mr H A Al-Ajlan with effect from 8 December 2010, Mr K M Sheehan with effect from 18 February 2011 and Capt. H I Donev with effect from 25 May 2011.

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.

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 21 September 2011 the Directors will propose a resolution for the appointment of PricewaterhouseCoopers S.à r.l. as Auditors for the period commencing 20 February 2011.

By order of the Board

C A P Lockwood
Secretary

25 May 2011

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 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 estimate 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 less than 2% 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 $8 million and $50 million ($60 million from 20 February 2011) and reinsured above this level through market reinsurance purchased on behalf of all member Associations of the Group. 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 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:

- Its investment managers must operate in accordance with internal risk control procedures to ensure compliance with the constraints placed on each portfolio by specific guidelines 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

(b) Financial risk and (c) Investment risk (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 are maintained to ensure that the statutory and regulatory reporting requirements in force from time to time are met.

- 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 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 consistently and regularly to the Association in detail monthly and in summary-form on a weekly basis. These reports are reviewed for reasonableness generally, and compliance with the investment guidelines in particular, and are discussed with the 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:

- 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.

(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 maintains a benchmark currency profile for investments which approximates to the currency exposure within its claims liabilities. Therefore currency movements are effectively hedged. Determining the currency exposure 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.

Audit Report

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

Report on the consolidated annual accounts

We have audited the accompanying consolidated annual accounts of The West of England Ship Owners Mutual Insurance Association (Luxembourg), which comprise the balance sheet as at 20 February 2011, the income and expenditure account for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated annual accounts
The Board of Directors is responsible for the preparation and fair presentation of these consolidated annual accounts in accordance with the identified basis of accounting as set out in Note 1 to the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the 'Réviseur d'entreprises agréé'
Our responsibility is to express an opinion on these consolidated annual accounts 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 annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the judgment of the 'Réviseur d'entreprises agréé', including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error.

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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 annual accounts 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 annual accounts.

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, the consolidated annual accounts 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 2011, 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 2011, 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 17, 18 and 19, (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 the Directors, which is the responsibility of the Board of Directors, is consistent with the consolidated annual accounts.

PricewaterhouseCoopers S.à r.l.
Represented by

Mervyn R. Martins

Luxembourg, 25 May 2011

Consolidated balance sheet

At 20 February 2011

	Note	**2011 $'000**	2010 $'000
Assets			
Investments			
Land and buildings	2	**42,217**	36,558
Other financial investments	3	**564,521**	442,781
		606,738	479,339
Reinsurers' share of technical provisions			
Claims outstanding	10	**220,567**	246,942
Debtors			
Member debtors		**13,272**	13,301
Reinsurance debtors	4	**15,407**	4,589
Additional calls not yet charged	5	**33,971**	71,413
Other debtors	6	**17,976**	62,410
		80,626	151,713
Other assets			
Tangible assets	7	**249**	279
Cash at bank and in hand		**69,716**	47,760
		69,965	48,039
Prepayments and accrued income			
Accrued interest		**2,883**	1,615
Other prepayments and accrued income		**421**	373
		3,304	1,988
Total assets		**981,200**	928,021

The accompanying notes are an integral part of these financial statements

	Note	2011 $'000	2010 $'000
Liabilities			
Capital and reserves			
Reserve deposit fund	1, 16	**19,250**	18,850
Revaluation reserve	2, 16	**14,442**	9,652
Class 1 policy year reserve account	16	**51,319**	25,910
Income and expenditure account	16	**97,653**	114,697
		182,664	169,109
Technical provisions			
Claims outstanding	10	**731,343**	703,243
Creditors			
Member creditors		**14,555**	12,008
Reinsurance creditors		**7,397**	6,931
Other creditors	8	**45,241**	36,730
		67,193	55,669
Total liabilities		**981,200**	928,021

Chairman

Director

25 May 2011

The accompanying notes are an integral part of these financial statements

Consolidated income and expenditure account

For the year ended 20 February 2011

	Note	**2011 $'000**	**2011 $'000**	2010 $'000	2010 $'000
Technical account					
Earned premiums, net of reinsurance					
Gross premiums written		**243,167**		239,589	
Outward reinsurance premiums		**(39,831)**		(45,641)	
Earned premiums, net of reinsurance	9		**203,336**		193,948
Allocated investment return transferred from the non-technical account			**49,469**		62,299
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(219,843)**		(256,205)	
Reinsurers' share		**69,845**		59,678	
Net claims paid	10	**(149,998)**		(196,527)	
Change in the provision for claims					
Gross amount		**(28,100)**		(60,178)	
Reinsurers' share		**(26,375)**		42,234	
Change in the net provision for claims	10	**(54,475)**		(17,944)	
Claims incurred, net of reinsurance			**(204,473)**		(214,471)
Operating expenses	11		**(35,532)**		(35,157)
Balance on the technical account			**12,800**		6,619
Non-technical account					
Balance on the technical account			**12,800**		6,619
Investment income	13		**74,862**		88,395
Investment charges	13		**(25,393)**		(26,096)
Allocated investment return transferred to the technical account			**(49,469)**		(62,299)
Surplus on ordinary activities before tax			**12,800**		6,619
Tax on ordinary activities	14		**(4,083)**		(2,663)
Surplus on ordinary activities after tax			**8,717**		3,956

The accompanying notes are an integral part of these financial statements

Notes to the financial statements

For the year ended 20 February 2011

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 historic amortised 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 2011 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)

Activities relating to specific Classes, Class 1 and Class 2, and the activity relating to The West of England Reinsurance (Hamilton) Limited, which is not attributable to any Class of business, are disclosed separately in notes 9, 10 and 15.

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 2011 by Dron & Wright at £21.5 million ($34.9 million) and the Hong Kong property at 20 February 2011 by Jones Lang LaSalle Ltd at HK$56.9 million ($7.3 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:

	2011 $'000	2010 $'000
Cost	**30,004**	30,004
Currency fluctuation adjustments	**(166)**	(1,812)
Accumulated depreciation brought forward	**(5,149)**	(4,753)
Depreciation charge for the year	**(396)**	(396)
Net book value	**24,293**	23,043

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 2011.

3 Other financial investments	**2011 $'000**	**2011 $'000**	2010 $'000	2010 $'000
	Market Value	**Cost**	Market Value	Cost
Shares and other variable yield securities and units in unit trusts	**192,316**	**141,479**	151,636	121,828
Debt securities and other fixed interest securities	**372,205**	**366,181**	291,145	283,281
	564,521	**507,660**	442,781	405,109

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.

Derivatives can be broken down as follows:

	2011 $'000	2011 $'000	2011 $'000	2010 $'000	2010 $'000	2010 $'000
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
Forward foreign exchange	382,524	1,238	1,018	37,327	1,251	637
Futures contracts	61,656	24	21	92,388	593	39
Interest rate swaps and credit default swaps	55,263	1,021	750	52,658	1,343	1,179
Options and warrants	33,975	31	168	58,210	357	65
Total at 20 February	**533,418**	**2,314**	**1,957**	240,583	3,544	1,920

Certain of the Association's investment managers have authority to invest in derivative financial instruments but only for hedging purposes and as a substitute for cash securities. The use of derivatives for leveraging purposes is not permitted.

At 20 February 2011 forward foreign exchange positions comprise net long positions in Singapore dollars, British pounds and other currencies for a total value of $191.4 million (2010 $19.0 million) and net short positions in euros, Australian dollars and other currencies for a total value of $191.2 million (2010 $18.4 million).

At 20 February 2011 futures contracts include US dollar contracts for a notional commitment of $53.3 million (2010 $59.1 million) and other contracts denominated in euros.

At 20 February 2011 swap contracts include US dollar contracts for a notional commitment of $35.1 million (2010 $43.8 million) and other contracts denominated in euros, Brazilian real and Australian dollars and Japanese yen for $20.2 million.

Derivative instruments are mainly used in the fixed income and short-term portfolios which represent 45% (2010 38%) 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 2011, 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 $51.2 million (2010 $89.7 million) and guarantees issued against those facilities totalled $28.8 million (2010 $39.2 million). Total bank guarantees and letters of credit issued on behalf of the Association at 20 February 2011, including both the above and issuances against facilities unsecured by pledged investments, were:

	2011 $ million	2010 $ million
On behalf of Members	**35.7**	37.4
The International Group of P&I Clubs Designated Reserves procedures	**21.1**	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 Reinsurance debtors	**2011 $'000**	2010 $'000
Recoveries from other members of the International Group of P&I Clubs	**3,854**	677
Recoveries from the Group Excess Loss reinsurance	**4,588**	650
Other reinsurances	**6,965**	3,262
	15,407	4,589

5 Additional calls not yet charged	**2011 $'000**	2010 $'000
Class 1 (Note 17)	**31,869**	69,588
Class 2 (Note 18)	**2,102**	1,825
	33,971	71,413

6 Other debtors	**2011 $'000**	2010 $'000
Tax debtors	**80**	79
Mortgages	**631**	662
Investment debtors	**16,508**	60,852
Dividends receivable	**56**	44
Other debtors	**701**	773
	17,976	62,410

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% (2010 5%) and are repayable over various periods up to the end of each Director's service.

7 Tangible assets	**2011 $'000**	2010 $'000
Cost		
At beginning of year	**751**	894
Additions	**161**	155
Disposals	**(212)**	(298)
At end of year	**700**	751
Depreciation		
At beginning of year	**472**	552
Provided during year	**153**	142
Disposals	**(174)**	(222)
At end of year	**451**	472
Net Book Value	**249**	279

Tangible assets consist of motor vehicles.

Notes to the financial statements continued

8 Other creditors

	2011 $'000	2010 $'000
UK Corporation Tax	**3,144**	1,798
Luxembourg municipal and state taxes	**1,246**	1,232
Accrued expenses	**901**	917
Investment creditors	**34,125**	24,880
Other creditors	**5,825**	7,903
	45,241	36,730

UK Corporation Tax includes $263,000 (2010 $288,000) of deferred tax arising on timing differences and $868,000 (2010 $1,246,000) deferred tax arising on unrealised gains on equity investments. All other creditors are payable within one year.

9 Earned premiums, net of reinsurance

2011 $'000

	Class 1	Class 2	WoE Hamilton	**Total**
Gross premiums by policy year				
Policy year 2010/11	201,784	7,557	–	**209,341**
Policy year 2009/10	34,963	378	–	**35,341**
Policy year 2008/09	34,672	879	–	**35,551**
Other	359	17	–	**376**
Total gross premiums	271,778	8,831	–	**280,609**
Movement in additional calls not yet charged (Note 5)	(37,719)	277	–	**(37,442)**
	234,059	9,108	–	**243,167**
Reinsurance premiums	(39,252)	(4,063)	3,484	**(39,831)**
Earned premiums, net of reinsurance	**194,807**	**5,045**	**3,484**	**203,336**

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	(75,019)	65	–	(74,954)
	231,028	8,561	–	239,589
Reinsurance premiums	(46,090)	(1,022)	1,471	(45,641)
Earned premiums, net of reinsurance	184,938	7,539	1,471	193,948

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.

10 Insurance claims and loss adjustment expenses

	2011 $'000 Class 1	2011 $'000 Class 2	2011 $'000 Reinsurance of WoE (London)	2011 $'000 WoE Hamilton	2011 $'000 Total
Gross claims paid and loss adjustment expenses					
– Members' claims	201,160	5,897	78	–	**207,135**
– International Group of P&I Clubs	12,708	–	–	–	**12,708**
	213,868	5,897	78	–	**219,843**
Reinsurance recoveries on claims paid					
– Recoveries from other members of the International Group of P&I Clubs	(17,348)	–	–	–	**(17,348)**
– Recoveries from the Group Excess Loss reinsurance	(25,262)	–	–	–	**(25,262)**
– Other reinsurances and WoE Hamilton	(29,468)	(522)	–	2,755	**(27,235)**
Reinsurance recoveries on claims paid	(72,078)	(522)	–	2,755	**(69,845)**
Net claims paid and loss adjustment expenses	**141,790**	**5,375**	**78**	**2,755**	**149,998**
Insurance liabilities, gross	710,261	21,034	48	–	**731,343**
Reinsurers' share of insurance liabilities					
– Recoveries from other members of the International Group of P&I Clubs	(62,359)	–	–	–	**(62,359)**
– Recoveries from the Group Excess Loss reinsurance	(48,113)	–	–	–	**(48,113)**
– Other reinsurances and WoE Hamilton	(121,629)	(2,981)	–	14,515	**(110,095)**
Reinsurers' share of insurance liabilities	(232,101)	(2,981)	–	14,515	**(220,567)**
Net insurance liabilities carried forward	**478,160**	**18,053**	**48**	**14,515**	**510,776**
Net insurance liabilities brought forward	425,521	14,869	33	15,878	456,301
Change in the net provision for insurance liabilities	**52,639**	**3,184**	**15**	**(1,363)**	**54,475**
Net insurance claims and loss adjustment expenses	**194,429**	**8,559**	**93**	**1,392**	**204,473**

	2011 $'000 Gross	2011 $'000 Reinsurance	2011 $'000 Net
Current year claims and loss adjustment expenses	257,510	(36,100)	**221,410**
Movement in cost of prior year claims and loss adjustment expenses	(9,567)	(7,370)	**(16,937)**
Total insurance claims and loss adjustment expenses	**247,943**	**(43,470)**	**204,473**
Claims paid and loss adjustment expenses	219,843	(69,845)	**149,998**
Change in the provision for insurance liabilities	28,100	26,375	**54,475**
Total insurance claims and loss adjustment expenses	**247,943**	**(43,470)**	**204,473**

Claims outstanding includes $93.6 million (2010 $88.6 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

10 Insurance claims and loss adjustment expenses (continued)	2010 $'000 Class 1	2010 $'000 Class 2	2010 $'000 Reinsurance of WoE (London)	2010 $'000 WoE Hamilton	2010 $'000 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

11 Operating expenses

	2011 $'000	2010 $'000
Directors' fees	**353**	339
Audit and regulatory fees	**324**	378
Other expenses	**11,473**	11,762
Depreciation	**412**	377
(Profit)/loss on disposal of fixed assets	**(8)**	18
Administrative expenses	**12,554**	12,874
Acquisition costs	**22,978**	22,283
	35,532	35,157

Included within acquisition costs is $14.6 million (2010 $13.9 million) in respect of commission.

12 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 (2010 five) staff directly employed by the Association and International Shipowners Reinsurance Company SA. The total costs for all staff are:

	2011 $'000	2010 $'000
Wages and salaries	**15,195**	15,778
Other staff related costs	**1,114**	1,068
Social security costs	**1,420**	1,432
Other pension costs	**8,088**	8,384
	25,817	26,662

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

	2011 Number	2010 Number
Claims	**74**	74
Underwriting	**27**	27
Administration	**35**	39
	136	140

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 in line with a recovery plan approved by the UK pensions regulator and that the cost of benefits for service subsequent to that date is spread over the remaining service period of the staff concerned. 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 in line with the plan, which contemplates full funding by 31 December 2015. The Directors intend to maintain the rate of funding in order to meet the requirements of the plan.

Notes to the financial statements continued

12 Staff costs (continued)

At 20 February 2011 the market value of the scheme's assets, on an IAS 19 valuation basis, was £83.9million ($136.2 million) (2010 £71.8 million/$111.0 million) and the surplus £6.0 million ($9.7 million) (2010 £2.1 million/$3.2 million). The principal assumptions underlying this valuation were an aggregate investment return of 6.6% (2010 6.9%) and a discount rate of 5.5% (2010 5.8%). 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.

A small number of staff has other pension arrangements provided.

13 Investment income

	2011 $'000	2010 $'000
Income from land and buildings	**1,526**	1,249
Investment income	**13,626**	9,634
Gains on realisation of investments	**22,882**	21,055
Unrealised gains on investments	**29,307**	48,829
Realised exchange gains	**1,378**	1,685
Unrealised forward currency gains	**–**	1,472
Unrealised exchange gains	**6,143**	4,471
Total investment income	**74,862**	88,395
Investment management expenses	**(1,785)**	(1,679)
Losses on realisation of investments	**(12,571)**	(17,876)
Unrealised losses on investments	**(9,168)**	(1,903)
Realised exchange losses	**(1,260)**	(3,041)
Unrealised forward currency losses	**(394)**	–
Unrealised exchange losses	**(215)**	(1,597)
Total investment charges	**(25,393)**	(26,096)
Total investment return	**49,469**	62,299

The investment return has been attributed as follows:

Class 1	**39,323**	50,651
Class 2	**1,928**	1,406
The West of England Reinsurance (Hamilton) Limited	**7,818**	9,842
	49,069	61,899
Reserve deposit fund	**400**	400
	49,469	62,299

14 Taxation

	2011 $'000	2010 $'000
Luxembourg municipal and state taxes	**1,710**	394
UK Corporation Tax:		
Current tax on income for the period	**2,787**	2,524
Adjustment in respect of prior periods	**(21)**	75
Deferred tax	**(393)**	(330)
	2,373	2,269
	4,083	2,663

15 Summarised income and expenditure account by Class

2011 $'000

	Class 1	**Class 2**	**Reinsurance of WoE (London)**	**WoE Hamilton**	**Total**
Earned premiums, net of reinsurance (Note 9)	194,807	5,045	–	3,484	**203,336**
Claims incurred, net of reinsurance (Note 10)	(194,429)	(8,559)	(93)	(1,392)	**(204,473)**
Net operating expenses (Note 11)	(33,798)	(1,675)	–	(59)	**(35,532)**
	(33,420)	(5,189)	(93)	2,033	**(36,669)**
Investment return, net of tax (Notes 13 and 14)	35,769	1,799	–	7,818	**45,386**
Dividend paid by WoE Hamilton to parent	20,000	–	–	(20,000)	**–**
Surplus/(deficit) for the financial year	**22,349**	**(3,390)**	**(93)**	**(10,149)**	**8,717**

2010 $'000

	Class 1	Class 2	Reinsurance of WoE (London)	WoE Hamilton	Total
Earned premiums, net of reinsurance (Note 9)	184,938	7,539	–	1,471	193,948
Claims incurred, net of reinsurance (Note 10)	(203,036)	(5,195)	(35)	(6,205)	(214,471)
Net operating expenses (Note 11)	(33,413)	(1,678)	–	(66)	(35,157)
	(51,511)	666	(35)	(4,800)	(55,680)
Investment return, net of tax (Notes 13 and 14)	48,460	1,334	–	9,842	59,636
Surplus/(deficit) for the financial year	(3,051)	2,000	(35)	5,042	3,956

Notes to the financial statements continued

16 Reserves

					2011 $'000
	Reserve deposit fund	**Revaluation reserve**	**Class 1 policy year reserve account**	**Income and expenditure account**	**Total reserves**
As at 20 February 2010	18,850	9,652	25,910	114,697	**169,109**
Revaluation	–	4,413	–	–	**4,413**
Exchange	–	377	–	48	**425**
Surplus for financial year (Note 15)	–	–	–	8,717	**8,717**
Transfers from income and expenditure account	400	–	55,409	(55,809)	–
Release from reserve	–	–	(30,000)	30,000	–
At 20 February 2011	**19,250**	**14,442**	**51,319**	**97,653**	**182,664**

					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 15)	–	–	–	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

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	**2011 $'000**	2010 $'000
Class 1:		
– Open years (Note 17)	**80,467**	59,036
– Closed years	**35,464**	35,227
– Hydra Insurance Company Ltd	**2,545**	(2,383)
	118,476	91,880
Class 2:		
– Open years (Note 18)	**846**	3,551
– Closed years	**15,253**	15,746
	16,099	19,297
Other reserves	**48,089**	57,932
Total reserves at 20 February	**182,664**	169,109

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

16 Reserves (continued)

Revaluation reserve by Class

	2011 $'000	2010 $'000
The balance on the revaluation reserve is attributed to Classes as follows:		
Class 1	**13,834**	9,234
Class 2	**570**	380
Other	**38**	38
	14,442	9,652

17 Class 1 Policy Year position at 20 February 2011

$'000

	2008/09	2009/10	2010/11	Unallocated investment income	Total
Calls and premiums:					
– Year to 20 February 2011	124	(76)	201,784		201,832
– Prior years	316,802	233,559	–		550,361
Future additional calls	–	–	31,869		31,869
Gross premiums	316,926	233,483	233,653		784,062
Reinsurance premiums	(54,738)	(52,248)	(48,442)		(155,428)
Acquisition costs	(27,869)	(22,249)	(22,147)		(72,265)
Net premiums	**234,319**	**158,986**	**163,064**		**556,369**
Investment income	–	25,000	30,000	65,153	120,153
Net income	**234,319**	**183,986**	**193,064**	**65,153**	**676,522**
Net claims paid	(111,300)	(72,665)	(25,555)		(209,520)
Net claims outstanding	(73,744)	(96,167)	(178,660)		(348,571)
Net claims incurred	**(185,044)**	**(168,832)**	**(204,215)**		**(558,091)**
Administration expenses	(14,670)	(11,801)	(11,493)		(37,964)
Net expenditure	**(199,714)**	**(180,633)**	**(215,708)**		**(596,055)**
Forecast balance on Class 1 open years at 20 February 2011	**34,605**	**3,353**	**(22,644)**	**65,153**	**80,467**

Based on the position at 20 February 2011 a resolution will be put to the Board of Directors at their meeting on 25 May 2011 to close the 2008/09 policy year. In addition, under the same resolution, the Board of Directors will be asked to allocate $30 million to policy year 2010/11 from the Class 1 policy year reserve account.

Future additional calls represent 30% for policy year 2010/11 (due 20 August 2011). Additional calls are chargeable on the advance call excluding the charge to Members for The International Group Excess of Loss Reinsurance premium. Furthermore, release calls have been set at 5% for policy year 2008/09, at 30% for policy year 2009/10 and at 30% for policy year 2010/11. The estimated yields of these releases, if charged, would be $7.1 million, $38.7 million and $39.6 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 15% for policy year 2009/10 and 30% for policy year 2010/11. The estimated yields of these releases would be $19.4 million and $39.6 million respectively if charged.

Notes to the financial statements continued

17 Class 1 Policy Year position at 20 February 2011 (continued)

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

(a) Disclosure relating to calls	2008/09 $'000	2009/10 $'000	2010/11 $'000
Additional calls and releases already charged	102,193	42,808	10,732
Estimated product of a further 10% additional call	14,200	12,900	13,200

The additional call products shown take account of calls already charged, and Members released, at 20 February 2011 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.

(b) Disclosure relating to claims and reinsurance recoveries	Closed years $'000	2008/09 $'000	2009/10 $'000	2010/11 $'000
Claims paid – own business		(103,590)	(66,298)	(25,555)
Claims paid – other clubs' Pool claims		(11,415)	(6,408)	–
Gross claims paid		(115,005)	(72,706)	(25,555)
Recoveries from the Pool		–	–	–
Recoveries from the Group Excess Loss reinsurance		–	–	–
Recoveries from The West of England Reinsurance (Hamilton)		–	–	–
Recoveries from other reinsurances		1,499	–	–
Reinsurance recoveries on claims paid		1,499	–	–
Recoveries from Hydra Insurance Company Ltd		2,206	41	–
Reinsurance recoveries on claims paid (including Hydra)		3,705	41	–
Outstanding claims – own business	(247,846)	(84,721)	(89,683)	(194,399)
Outstanding claims – other clubs' Pool claims	(41,435)	(2,085)	(20,092)	(30,000)
Gross outstanding claims (Note 10)	(289,281)	(86,806)	(109,775)	(224,399)
Recoveries from the Pool	31,850	2,164	2,050	26,295
Recoveries from the Group Excess Loss reinsurance	44,510	–	–	–
Recoveries from Hydra Insurance Company Ltd	7,489	298	8,608	9,639
Recoveries from The West of England Reinsurance (Hamilton)	10,992	663	–	–
Recoveries from other reinsurances	87,282	9,937	2,950	9,805
Reinsurance recoveries on outstanding claims	182,123	13,062	13,608	45,739
Recoveries from Hydra Insurance Company Ltd	(3,886)	(298)	(8,608)	(9,639)
Reinsurance recoveries on outstanding claims (Note 10)	178,237	12,764	5,000	36,100

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.

18 Class 2 Policy Year position at 20 February 2011

$'000

	2006/07	2007/08	2008/09	2009/10	2010/11	Unallocated investment income	Total
Calls & premiums							
– Year to 20 February 2011	(2)	6	(2)	378	7,557		7,937
– Prior years	8,595	8,066	8,378	7,291	-		32,330
Future additional calls	–	–	–	828	1,274		2,102
Gross premiums	8,593	8,072	8,376	8,497	8,831		42,369
Reinsurance premiums	(1,477)	(1,313)	(1,357)	(1,381)	(2,241)		(7,769)
Acquisition costs	(607)	(592)	(636)	(698)	(701)		(3,234)
Net premiums	**6,509**	**6,167**	**6,383**	**6,418**	**5,889**		**31,366**
Investment income	75	–	–	–	–	8,611	8,686
Net income	**6,584**	**6,167**	**6,383**	**6,418**	**5,889**	**8,611**	**40,052**
Net claims paid	(4,064)	(4,675)	(5,029)	(2,447)	(706)		(16,921)
Net claims outstanding	(362)	(2,068)	(3,371)	(4,444)	(6,350)		(16,595)
Net claims incurred	**(4,426)**	**(6,743)**	**(8,400)**	**(6,891)**	**(7,056)**		**(33,516)**
Administration expenses	(1,225)	(1,316)	(1,221)	(970)	(958)		(5,690)
Net expenditure	**(5,651)**	**(8,059)**	**(9,621)**	**(7,861)**	**(8,014)**		**(39,206)**
Forecast balance on Class 2 open years at 20 February 2011	**933**	**(1,892)**	**(3,238)**	**(1,443)**	**(2,125)**	**8,611**	**846**

Investment income includes all amounts earned up to 20 February 2011. Based on the position at 20 February 2011 a resolution will be put to the Board of Directors at their meeting on 25 May 2011 to close the 2006/07 policy year following an allocation of $75,000 from investment income.

Future additional calls represents 20% for the 2009/10 and 30% for the 2010/11 policy years, due 20 August 2011 and 2012 respectively. In addition, releases have been set at 15% for all open years with the exception of policy years 2009/10 and 2010/11 which are set at 30%. 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 reduce policy year 2009/10 to 15% in line with other open prior years.

19 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 2011 is 13.66% (2010: 13.79%).