

MARINE SHIPPING MUTUAL INSURANCE COMPANY LIMITED

ANNUAL REPORT AND ACCOUNTS 2011



MARINE SHIPPING MUTUAL INSURANCE COMPANY LIMITED

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MARINE SHIPPING MUTUAL INSURANCE COMPANY LIMITED

A COMPANY LIMITED BY GUARANTEE

Registered in England
Number of Company 1065393
VAT Registration No 178 1133 65

The Quayside, Newcastle upon Tyne, Tyne and Wear NE1 3DU UK
Telephone: +44 (0)191 232 1346 Fax: +44 (0)191 261 0540

ANNUAL REPORT
AND ACCOUNTS
2011

ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty-Ninth Annual General Meeting of the Members of the Company will be held at the RAC Club, 89 Pall Mall, London SW1Y 5HS, United Kingdom, on Wednesday 2 November 2011, at 09:45 hours when the following ordinary business will be transacted:

1. To receive and consider the reports of the Directors and the Auditors together with the Financial Statements for the year ended 30 June 2011.
2. To elect Directors.
3. To fix the Directors' remuneration.
4. To re-appoint Ernst & Young as Auditors and to authorise the Directors to fix their remuneration.
5. Any other business which may be transacted at the Annual General Meeting.

Form of proxy is enclosed.

By order of the Board

AA WILSON
Company Secretary
30 September 2011

DIRECTORS AND OFFICERS

DIRECTORS

SB Goodacre (Chairman) *
AM Lynch (Vice-Chairman) *
JAF Cowderoy
RC Eccleston
A Engelsman
PA Jennings (Joint Managing Director)
SJ Kitchen
G Mouskas
M-KW Reith
PB Shirke *
LR Stuart-Hill
JWF Warwick
AA Wilson (Joint Managing Director)

Member of the Advisory Committee
* Member of the Audit Committee
 Member of the Nomination Committee

Management

North Insurance Management Limited ("NIML")
The Quayside
Newcastle upon Tyne
Tyne and Wear NE1 3DU

Company Secretary
AA Wilson

Auditors
Ernst & Young LLP
London

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

Time & Tide Shipping Limited
David MacBrayne Limited
Harrisons (2002) Limited

Wagenborg Shipping BV

Bibby Line Group Limited
Zela Shipping Company Limited
Johann MK Blumenthal GmbH & Co KG
ASP Shipmanagement Limited
Grindrod Limited
The Hadley Shipping Company Limited

DIRECTORS' REPORT

The Directors present their Report in respect of the financial year ended 30 June 2011 and submit to the Members the audited financial statements covering that period.

Principal Activities

The Company ceased underwriting on 30 June 2011 and is in run off from that date. Until then, the Company's activities and operations were the provision of marine insurance facilities for its Members' vessels on the mutual principle. On 23 August 2011 the Company entered into a framework agreement with the North of England Protecting & Indemnity Association Limited (North) whereby, subject to the fulfilment of certain conditions and warranties, control of the Company will pass to North and there will be a distribution of funds to Members.

Membership

At 30 June 2011, the gross tonnage entered in the Company totalled 8,175,000 (2010 : 8,054,000) and there were 445 entered ships (2010 : 420), the insured value of which was US\$12.963 billion (2010 : US\$12.284 billion).

Review of Business Activities

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

	2011 US\$000	2010 US\$000
Gross premiums written	44,938	43,382
Underwriting (loss) / gain	(1,227)	613
Investment return after tax	1,217	(477)
(Loss) / surplus for the financial year	(10)	136
Free reserves	20,108	20,118
Combined ratio	116%	96%

The combined ratio is calculated as claims incurred, net of reinsurance, plus net operating expenses and the technical account gain / loss on exchange as a percentage of premiums net of reinsurance.

As shown in the Company's income and expenditure account on page 9, the gross premiums written in 2010/11 were 3.6% higher than those written in 2009/10. The result was break-even for the 2010/11 financial year compared to a small surplus of US\$0.1 million in 2009/10.

Funds under management produced a gain, before management fees, of 5.60% compared to a benchmark performance of 5.96%.

The loss for the year and its proposed transfer from reserves are shown in the following financial statements. The balance sheet on page 10 of the financial statements shows that free reserves did not change since 30 June 2010 and have remained at US\$20.1 million.

Principal Risks and Uncertainties:

Insurance Risk

Although the Company has ceased underwriting it retains liabilities arising out of the past issuance of contracts that transfer insurance risk. The Company faces the risk that actual claims liabilities arising out of those past insurance contracts exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques. The Company's insurance risk is mitigated, to the greatest extent possible, by the Company's comprehensive reinsurance program.

Reinsurers' Share of Technical Provisions

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength prior to finalisation of any contract. Reinsurers are required to have a minimum credit rating of "A" when appointed.

Investment Risk

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

Market Risk

Market risk is the risk that as a result of market movements a firm may be exposed to fluctuations in the value of its assets or the income from its assets. Sources of general market risk include movements in interest rates, equities, exchange rates and real estate prices. It is important to note that none of these sources of risk is independent of the others. Market risk is controlled through a diversified and conservative investment strategy focussing on high quality assets and the use of a professional and reputable investment manager to manage the portfolio.

Currency Risk

The Company operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar and the £ Sterling but also Euro and other global currencies. Currency risk is minimised by the Company's asset matching policy to broadly match its assets and liabilities by currency.

Credit Risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Investment related counterparty risk is reduced by investing in highly reputable investment funds, by placing strict credit quality guidelines for assets held on a discretionary basis and by restricting the placement of time deposits to "A" rated banks.

Liquidity Risk

An adverse liquidity outcome is the inability to pay liabilities as they fall due as well as realising a loss as a result of the premature or forced sale of assets to raise liquidity. Investments are held in highly liquid assets.

Derivative Financial Instruments

The Company enters into forward foreign exchange contracts to ensure that the currency profile of the investment portfolio is matched, as far as is reasonably possible, to the currency profile of the Company's liabilities. The Company's policy on the recognition of derivatives is shown in accounting policies on page 13.

Fraud Risk

Fraud risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. The Company is vigilant in its approach to minimise fraud risk and has a fraud policy which is adhered to strictly by the managers. The Company also has a whistle blowing policy to ensure that suspected fraud can be reported in good faith to board members directly.

Enterprise Risk Management

The Company has a formal enterprise risk management process. The Enterprise Risk Management process is overseen by the Audit Committee, the members of which are non executive directors. The Audit Committee reports to the Board of Directors. The Enterprise Risk Management process includes an established risk register which is reviewed and updated on an ongoing basis by management. The Company utilises the Internal Audit function provided by NIML under the management agreement between the Company and NIML. Internal Audit assesses the adequacy of existing systems and controls in place to mitigate identified risks and where appropriate makes recommendations for improvement. The Internal auditor reports directly to the Audit Committee.

Risk Management of Investment Risk and its Components

The detailed consideration of investment strategy is the responsibility of the Directors. Investment management is outsourced to a professional investment manager. When a vacancy arises, prospective investment managers are interviewed and, if suitable, proposed by the Managers and approved for appointment by the Directors. The performance of the investment manager against their benchmark is monitored on a monthly basis.

Directors

The Directors who held office during the year are shown on page 3.

In accordance with Article 7 of the Company's Articles of Association, none of the Directors retire by rotation.

Statement of Disclosure of Information to Auditors

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

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the surplus or deficit of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Going Concern

The Company ceased underwriting on 30 June 2011 but remains a going concern in run off.

Directors' Meetings

The Directors met on six occasions during the year and considered various reports from the Management regarding the financial position, claims, reinsurance, rules, investments and loss prevention issues and received reports from the Audit Committee.

Committees

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

Advisory Committee

The Advisory Committee consists of the Chairman, the Vice-Chairman, the immediate past Chairman and the Joint Managing Directors. Meetings are also attended by the Company Secretary. Meetings are held as circumstances require, and the duties of the Committee are to be available to the Managers and to advise and take decisions on matters relating to the management of the Company requiring attention between Board meetings; and to consider such other matters relating to the Company upon which the Managers may need guidance with a view to making recommendations to the Board.

Audit Committee

The Audit Committee consists of three Non-executive Directors and meetings are also attended by the Company Secretary and by representatives of the Managers. The Committee meets not less than twice a year, and its principal duties are: to consider the appointment of the external auditor, the audit fee, the effectiveness of the external auditor and to deal with any questions of their resignation or dismissal; to discuss with the external auditor before the audit commences the nature and scope of the audit; to review the annual financial statements before submission to the Board; to discuss problems and reservations, if any, arising from the

interim and final audits, and any matters the auditor may wish to discuss; to review the external auditor's management letter and the Company's management response; to review the Company's Enterprise Risk Management systems and its risk register on behalf of the Board; in respect of the Company's FSA compliance to review the measures taken by the Company to establish and maintain systems and controls appropriate to its business and to review the measures taken by the Company to establish and maintain its Individual Capital Assessment; to consider the Internal Audit plan and approve it on an annual basis; to consider the work of Internal Audit against the plan; to consider reports from Internal Audit on issues it has identified as being of material concern; and to consider the effectiveness of the internal auditor.

Nomination Committee

The Nomination Committee consists of the Chairman, the Vice-Chairman, the immediate past Chairman and the Joint Managing Directors. Meetings are held not less than once a year and its principal duties are: to review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes; to give full consideration to succession planning for Directors, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in future; to be responsible for identifying

and nominating for approval of the Board candidates to fill Board vacancies; to keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the market place; to review annually the performance of the Board; and to ensure that on appointment to the Board, Non-executive Directors are advised of what is expected of them in terms of committee service and involvement outside Board meetings.

Charitable Donations

The Company made no charitable donations (2010 : nil). The Company made no political donations (2010 : nil).

AA WILSON

Joint Managing Director
30 September 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARINE SHIPPING MUTUAL INSURANCE COMPANY LIMITED

We have audited the financial statements of Marine Shipping Mutual Insurance Company Limited for the year ended 30 June 2011 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its loss for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

T.J. LEGGETT
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
30 September 2011

INCOME AND EXPENDITURE ACCOUNT

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Discontinued Operations and Total 2011		Discontinued Operations and Total 2010	
		US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
TECHNICAL ACCOUNT					
Earned premiums, net of reinsurance			44,938		43,382
Gross premiums written			(37,462)		(29,273)
Outward reinsurance premiums			7,476		14,109
Allocated investment return transferred from the non-technical account			1,852		(477)
Gain / (losses) on exchange			1,927		(557)
Total technical income			11,255		13,075
Claims paid					
Gross amount		(76,975)		(32,396)	
Reinsurers' share		66,616		23,821	
			(10,359)		(8,575)
Change in the provision for claims					
Gross amount		(2,420)		6,168	
Reinsurers' share		6,675		(6,297)	
			4,255		(129)
Claims incurred, net of reinsurance			(6,104)		(8,704)
Net operating expenses	3		(4,526)		(4,235)
Total expenditure			(10,630)		(12,939)
Balance on the technical account for general business			625		136
NON-TECHNICAL ACCOUNT					
Balance on the general business technical account			625		136
Investment income	5	798		444	
Unrealised (losses) / gains on investments		(437)		550	
Investment expenses and charges		(84)		(48)	
Gains / (losses) on exchange		1,575		(1,423)	
			1,852		(477)
Allocated investment return transferred to the technical account			(1,852)		477
Surplus on ordinary activities before tax			625		136
Tax on ordinary activities	6		(635)		-
(Loss) / surplus for the financial year			(10)		136
Reserves brought forward			20,118		19,982
Reserves carried forward			20,108		20,118

There were no gains or losses other than those shown in the Income and Expenditure account for the current or preceding year, therefore a separate statement of total recognised gains and losses has not been presented.

The notes on pages 12 to 17 form part of these financial statements.

BALANCE SHEET

AT 30 JUNE 2011

	Notes	2011		2010	
		US\$ 000's	US\$ 000's	US\$ 000's	US\$ 000's
ASSETS					
Investments					
Financial investments	7		29,916		32,285
Reinsurers' share of technical provisions					
Claims outstanding			53,163		46,488
Debtors					
Debtors arising out of direct insurance operations		77		414	
Debtors arising out of reinsurance operations		9,586		4,597	
Corporation tax debtor		-		77	
Other debtors		779		-	
			10,442		5,088
Other assets					
Cash at bank and in hand		5,667		10,619	
Deferred tax	6	-		575	
			5,667		11,194
Prepayments and accrued income	8		146		125
Total assets			99,334		95,180
LIABILITIES					
Reserves					
Income and Expenditure account			20,108		20,118
Technical provisions					
Claims outstanding			68,951		66,531
Creditors					
Creditors arising out of direct insurance operations		80		574	
Creditors arising out of reinsurance operations		9,517		7,828	
Other creditors		342		17	
			9,939		8,419
Accruals and deferred income			336		112
Total liabilities			99,334		95,180

These financial statements were approved by the Board on 30 September 2011.

PA JENNINGS

Joint Managing Director

AA WILSON

Company Secretary and Joint Managing Director

The notes on pages 12 to 17 form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 US\$ 000's	2010 US\$ 000's
Net cash (outflow) / inflow from operating activities	11	(7,196)	3,866
Corporation tax paid		-	-
		(7,196)	3,866
Cash flows were invested as follows:			
Decrease in cash holding		(4,952)	(24,263)
Net portfolio investment			
Cash deposit		(1,175)	12,283
Bonds and securities		(1,069)	15,846
Net investment of cash flows		(7,196)	(3,866)

The notes on pages 12 to 17 form part of these financial statements.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Preparation of Accounts

These accounts have been prepared in accordance with Section 396 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The Company has adopted all material recommendations of the Association of British Insurers Statement of Recommended Practice on Accounting for Insurance Business (ABI SORP) issued in December 2005 (as amended in December 2006) by the Association of British Insurers with the exception of paragraph 219 which requires companies to include exchange differences in the non-technical account except for long term insurance business where exchange differences should be dealt with in the technical account. The Company includes only taxable exchange gains or losses in the non-technical account to improve the clarity of the financial statements.

The accounts have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments.

Gross Premiums Written

Premiums, net of laid up returns, are credited to the income and expenditure account in the year to which they relate.

Reinsurance Premiums

Reinsurance premiums, less returns, are debited to the income and expenditure account in the financial year to which they relate, together with a provision for the future costs of existing reinsurance policies.

Claims and Related Expenses

Claims are charged to the income and expenditure account on an incurred basis and include claim payments and direct and indirect claims handling costs net of salvage and subrogation recoveries.

Provision is made for outstanding claims based on the Company's estimate of the likely cost of claims notified but not paid at the balance sheet date. Provision is also made for claims incurred but not reported (IBNRs) based on statistical methods. Both the individual estimates and the IBNR methodology are reviewed on a regular basis. Although based on information currently available, the ultimate liability of the claims provisions may, as a result of subsequent information and events, prove to be less than or in excess of the amount provided. All claims provisions are undiscounted.

Provision for the cost of claims handling is included within claims outstanding.

The net improvement in claims up to and including the 2009/10 policy year during the financial year ended 30 June 2011 was US\$2,296,000 (2010 : US\$2,574,000), due a combination of favourable claims settlements and release of IBNR provisions.

Reinsurance Recoveries

Reinsurance recoveries are accrued to match relevant claims.

Investment Income

Investment income is recognised on a receivable basis. Variances in unrealised gains and losses are included in the income and expenditure account in the period in which they arise. Investment income is allocated in full to the technical account to reflect the mutual status of the Company.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable, and therefore recognised, only when on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Investments

Investments are stated at the current value in the balance sheet, this being the mid-market value on the balance sheet date.

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The Company does not engage in hedge accounting and changes in the fair value of all derivative instruments are recognised immediately in the Income Statement.

Foreign Currencies

Foreign currency assets and liabilities are translated into US Dollars at the rates of exchange ruling at the balance sheet date. Income and expenditure items are translated at the rate prevailing at the transaction date.

The rates of exchange ruling at the balance sheet date and used within these accounts were as follows:

	2011	=	US\$1	2010
United Kingdom	£ 0.6229	=	US\$1	£ 0.6684
Euros	€ 0.6897	=	US\$1	€ 0.8164

2. ANALYSIS OF PREMIUMS, SURPLUS BEFORE TAXATION AND NET ASSETS

The Directors of the Company have taken advantage of the exemption from disclosure which is available within SSAP 25. Disclosure of the geographical analysis of gross premium income, surplus before taxation and net assets has therefore not been provided. The Directors consider that disclosure of this information would be prejudicial to the interests of the Company.

All gross premiums result from contracts concluded by the Company within the United Kingdom and arise from direct marine business.

NOTES TO THE ACCOUNTS CONTINUED

3. NET OPERATING EXPENSES

	2011 US\$ 000's	2010 US\$ 000's
Brokerage	2,490	2,550
Acquisition costs	700	626
Administrative expenses		
Gross insurance intermediary fee	2,334	2,086
Less claims handling costs	(1,400)	(1,252)
Less acquisition costs	(700)	(626)
Net insurance intermediary fee	234	208
Directors' remuneration (see Note 4)	125	122
Auditors' remuneration	101	65
General expenses	876	664
	1,336	1,059
Net operating expenses	4,526	4,235

The insurance intermediary fee is payable to North Insurance Management Limited in respect of the provision of insurance services.

Amounts paid to Ernst & Young LLP in respect of non-audit services were US\$ 27,245 (2010 : US\$ nil).

The Company does not have any employees in the current or prior year.

4. DIRECTORS' EMOLUMENTS

The remuneration of the Directors was as follows:

	2011 US\$ 000's	2010 US\$ 000's
Fees	125	122

No Directors received contributions to pension schemes from the Company in the current or prior year.

5. INVESTMENT INCOME

	2011 US\$ 000's	2010 US\$ 000's
Income from listed investments	339	343
Bank and other interest receivable	138	55
Realised gains	321	46
	798	444

6. TAXATION

	2011 US\$ 000's	2010 US\$ 000's
Current tax:		
UK Corporation tax charge on non mutual income at 20.75% (2010-21%)	-	-
Deferred tax charge:		
Origination and reversal of timing differences	635	-
Total tax charge on non mutual income	635	-

Corporation tax is charged on investment income. The mutual activities of the Company are not subject to corporation tax.

Factors affecting current tax charge

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

	2011 US\$ 000's	2010 US\$ 000's
Allocated investment return transferred to the technical account	1,852	(477)
Tax on the above at small companies UK corporation tax rate of 20.75%	384	-
Relieved by loss brought forward	(384)	-
Tax on the above at small companies UK corporation tax rate of 21%	-	(100)
Unrecognised deferred tax asset on current year tax loss	-	100
Total current tax	-	-

Provision for deferred tax

The deferred tax included in the balance sheet is as follows:

	2011 US\$ 000's	2010 US\$ 000's
At 1 July 2010	575	615
Income and expenditure account	(575)	-
Exchange adjustment	-	(40)
At 30 June 2011	-	575

The deferred tax asset at consists of:

	2011 US\$ 000's	2010 US\$ 000's
Tax losses carried forward	-	575

There is an unrecognised deferred tax asset of US\$317,000 (2010: US\$95,000).

A deferred tax asset has not been recognised on the current year tax loss as the Directors are of the opinion that it is unlikely that there will be sufficient taxable profits in future years against which this additional asset would be recoverable.

NOTES TO THE ACCOUNTS CONTINUED

7. FINANCIAL INVESTMENTS

	2011 US\$ 000's	2010 US\$ 000's
Market value		
Fixed income securities	15,263	16,443
Deposits with credit institutions	14,659	15,834
Unrealised (loss) / gain on forward exchange contracts	(6)	8
	29,916	32,285
Cost		
Fixed income securities	15,150	15,893
Deposits with credit institutions	14,659	15,834
	29,809	31,727

8. PREPAYMENTS AND ACCRUED INCOME

	2011 US\$ 000's	2010 US\$ 000's
Accrued interest	146	93
Other prepayments and accrued income	-	32
	146	125

9. RELATED PARTY DISCLOSURE

Financial Reporting Standard 8 requires disclosure of material transactions with related parties. As all mutual members of the Company act as insurer whilst also being an insured, they are, in effect, related parties. No single transaction is of such materiality to require separate disclosure.

With the exception of the Joint Managing Directors and RC Eccleston, all Directors are representatives of Members.

The Company made payments of US\$2,334,000 (2010 : US\$2,086,000) during the year in respect of insurance intermediary charges to North Insurance Management Limited, whose Joint Managing Directors are PA Jennings and AA Wilson.

10. STATUS

The Company is a non profit making mutual organisation limited by guarantee, and has no authorised or issued share capital.

11. CASHFLOW STATEMENT

	2011 US\$ 000's	2010 US\$ 000's
Reconciliation of surplus for the financial year to net cash (outflow) / inflow from operating activities		
(Loss) / surplus on ordinary activities after tax	(10)	136
Gain on sale of investments	(321)	(46)
Unrealised losses / (gains) on investments	437	(550)
Unrealised losses / (gains) on forward exchange contracts	14	(8)
Translation adjustment on investments	(5)	(1)
Taxation	635	-
Translation adjustment on taxation	17	66
(Decrease) / increase in net outstanding claims	(4,255)	129
(Increase) / decrease in debtors	(5,452)	1,386
Increase in creditors	1,744	2,754
Net cash (outflow) / inflow from operating activities	(7,196)	3,866

Portfolio investments

Cash taken off / (placed on) deposit	1,175	(12,283)
Purchase of fixed income securities	(112,283)	(93,314)
Sale of fixed income securities	113,352	77,468
	(2,244)	(28,129)

	At 30 June 2010 US\$000's	Cash flows US\$000's	Changes to market value and currencies US\$000's	At 30 June 2011 US\$000's
Movement in cash and portfolio investments				
Cash at bank and in hand	10,619	(4,952)	-	5,667
Deposits	15,834	(1,175)	-	14,659
Fixed income securities	16,443	(1,069)	(111)	15,263
	42,896	(7,196)	(111)	35,589

POLICY YEAR STATEMENT

	2007/08 and prior US\$ 000's	2008/09 US\$ 000's	2009/10 US\$ 000's	2010/11 US\$ 000's	Claims handling reserve US\$ 000's	Unrealised gain US\$ 000's	Total US\$ 000's
Premiums		40,921	40,876	42,443	-	-	124,240
Reinsurance premiums		(30,685)	(30,883)	(36,675)	-	-	(98,243)
		10,236	9,993	5,768	-	-	25,997
Investment income		(1,308)	444	798	-	113	47
Difference on translation		(5,778)	(1,980)	3,502	-	-	(4,256)
Expenses and taxation		(1,974)	(2,985)	(4,155)	-	-	(9,114)
Net claims paid		(8,785)	(5,032)	(2,240)	-	-	(16,057)
		(7,609)	440	3,673	-	113	(3,383)
Surplus available on 2007/2008 & prior	39,279	-	-	-	-	-	39,279
Balance available for outstanding claims	39,279	(7,609)	440	3,673	-	113	35,896
Outstanding claims	4,968	7,268	16,929	35,636	4,150	-	68,951
Reinsurance recoveries	(4,286)	(5,553)	(12,448)	(30,876)	-	-	(53,163)
Net outstanding claims	682	1,715	4,481	4,760	4,150	-	15,788
Surplus at 30 June 2011	38,597	(9,324)	(4,041)	(1,087)	(4,150)	113	20,108
Surplus at 30 June 2010	37,750	(10,163)	(3,919)	-	(4,100)	550	20,118

POLICY YEAR STATEMENT CONTINUED

NOTES

1. The additional information consisting of this Policy Year Statement has been prepared from the accounting records of the company. Whilst it is not audited and does not form part of the statutory financial statements, it should be read in conjunction with them.

2. Premium income is net of brokerage.

3. Outstanding claims include provision for claims incurred but not reported and for claims handling expenses.

4. Expenses and taxation have been allocated as follows:

	2008/09 US\$ 000's	2009/10 US\$ 000's	2010/11 US\$ 000's
General and administrative expenses	3,030	2,937	3,436
Investment expenses	522	48	84
Tax (credit) / charge	(721)	-	635
VAT refund	(857)	-	-
	1,974	2,985	4,155

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

6. Investment income, gains and losses on the sale of investments, and exchange movements are allocated to the same policy year as the financial year in which they arise.

MARINE SHIPPING MUTUAL INSURANCE COMPANY LIMITED

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