MANAGEMENT REPORT 2000

NORTH OF ENGLAND

CONTENTS

Registered in England. Company Registration Number: 505456

V.A.T. Registration Number: 178 1131 69

MANAGEMENT HIGHLIGHTS

FINANCE

Reinforcing the Association's financial strength, the P&I class free reserve increased by 6% to $84.2 million.

SUPPLEMENTARY CALLS

1999 marks the ninth consecutive year of achieving original call estimates.

MEMBERSHIP

Increased membership to over 30 million gt establishes a critical mass for future development.

UNDERWRITING

The 1999 result maintains the Association's consistent record of superior underwriting performance.

REINSURANCE

The Association's multi-year reinsurance programme enhances stability for the future.

CLAIMS

The 1999 claims experience is within projections and is a marked improvement on the 1997 and 1998 policy years.

SERVICE

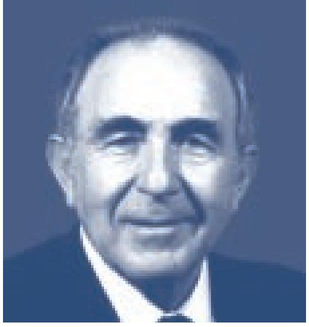
The Association continues to provide the most responsive and cost effective service.

QUALITY

Claims prevention initiatives and selective underwriting remains strategic to the quality base of the membership.

2000 P&I FINANCIAL SUMMARY

Free Reserves	$ 84.2	million
Gross Premium	$ 82.0	million
Net Assets	$320.5	million
Total Net Claims	$235.7	million
Average Expense Ratio	7.7	%



CHAIRMAN'S STATEMENT

Much has been written and discussed this year about the future of P&I and the mutual club system in particular. I confirm that North of England remains very firmly committed to the mutual ethos and strongly believe that this best serves our members' interests.

Liverpool & London's unanimous agreement to transfer their tonnage at the 2000 renewal is testimony to North of England's mutual philosophy. It's a resounding endorsement of North of England's reputation in the P&I industry and a positive development for the Club and its members. Above all it is very pleasing that the high standard of membership quality in the Club has been further enhanced.

I am delighted to welcome all former Liverpool & London members to the Club and also to welcome Mr A Al Mady of United Arab Shipping Company (UASC), Mr S Eliades of Athenian Tankers, Mr A Mouzouropoulos of Furness Withy/Hamburg Sud and Mr Adam Polemis of Polembros Shipping to the Board of Directors. Together with the personnel joining from Liverpool & London, I am satisfied we will be able to offer continuity of membership, combined with our traditional high level of personal service.

In addition to our commitment to mutuality, a number of other fundamental principles underline our strategic objectives.

Financial strength is paramount in our strategy, and I am delighted to report that despite a year of uncertainty in the financial markets, our financial strength has once again increased and our free reserves have grown to a record level of $84.2 million. This will also now be our ninth successive year of budgeted stable P&I costs, which is a track record we are justifiably proud of. When combined with our multi-year comprehensive reinsurance programme, it makes the likelihood of unbudgeted supplementary calls even more remote.

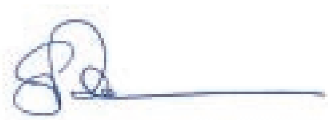
Our unprecedented financial strength has developed during a period when the marine insurance market has remained soft, and when numerous commercial underwriters have experienced widespread losses. The P&I industry is not isolated from this situation and recent years have seen a downward pressure on rating. I am pleased to report that North of England has achieved the best technical underwriting result of all Group Clubs over the last three year period. However, there is no room for complacency, and if the falling rates of recent years continue I am sure that a number of P&I underwriters will need to examine their future underwriting policy closely.

Another key strategic objective of the Club, and indeed a traditional value of mutual clubs in general, is that of quality personal service. I am pleased to report that we have continued to strengthen our in-house expertise and our geographical service teams have further sharpened their focus on meeting members' needs. Our innovative loss prevention initiatives continue to occupy a pre-eminent position within the P&I industry. Though North of England has now developed into a club with a membership in excess of 30 million gt, I am confident we will not sacrifice our commitment to service that has been a major factor in the success and growth of the Club in recent years. A further exciting enhancement to our service will take place later this year with the opening of a Greek office to deal with the needs of our Greek membership.

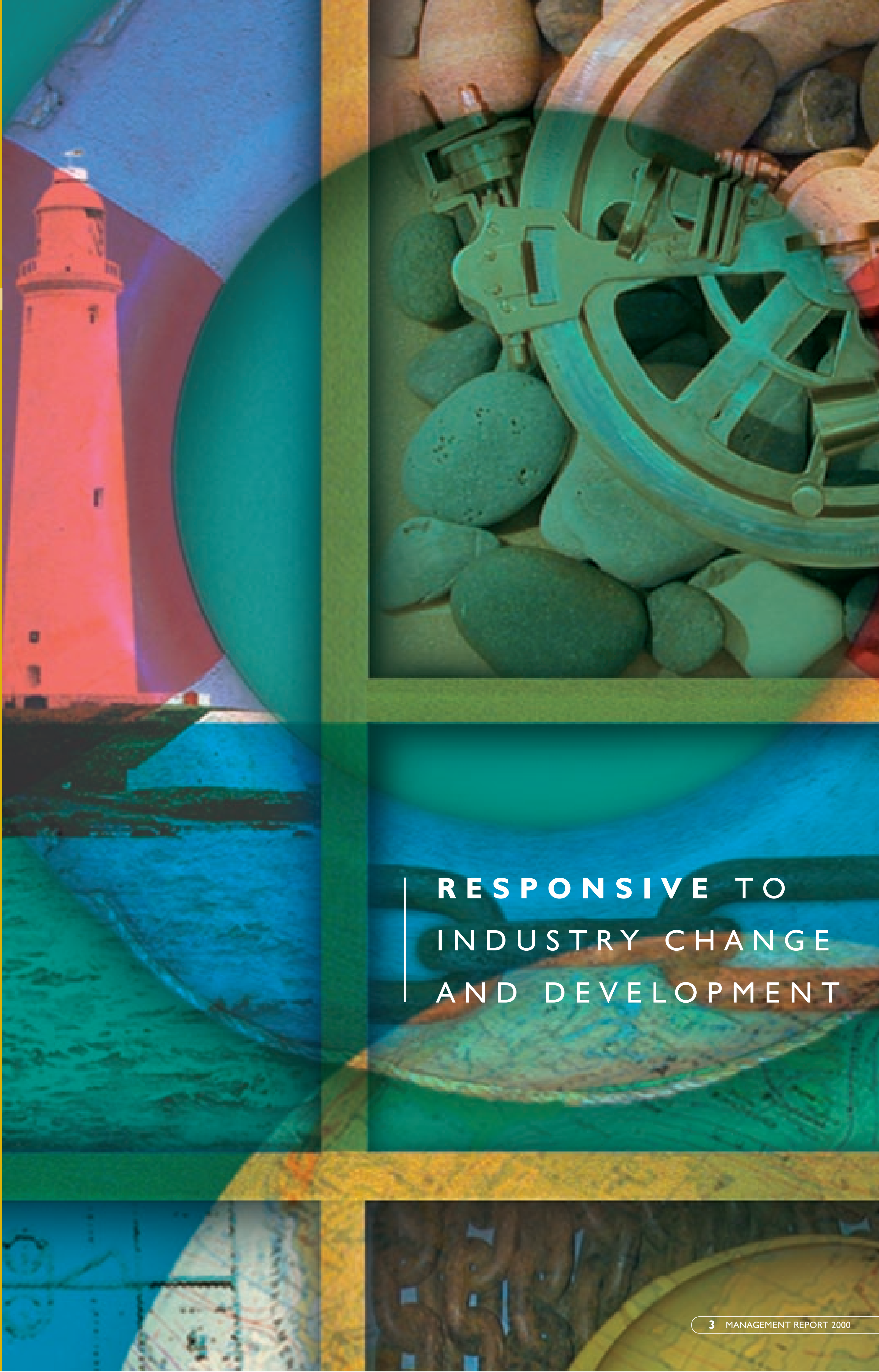
I have greatly enjoyed the last year as Chairman of the Club and I thank my fellow Directors and Managers for their dedication and support. I was delighted to hand over the Chairmanship of the Club at our June 2000 meeting to Mr Peter Henderson and I know that the Club will continue to prosper in a very safe pair of hands.

There are challenges ahead for all those involved in the industry and I can assure you that North of England in particular will be responsive to any changes in the market place. Strategically we will ensure the continued growth of the Club and development of additional products and services to cater more fully for our members' needs.

I wish all members a safe and prosperous year, and I am sure that North of England is ideally placed to meet the challenges ahead.



Spyros M Polemis
Chairman
August 2000



RESPONSIVE TO INDUSTRY CHANGE AND DEVELOPMENT


7.0M
6.0M
5.0M
4.0M
3.0M
7.0M
5.0M
4.0M
3.0M

MANAGEMENT OVERVIEW

Twelve months into the Newcastle merger it was anticipated that 1999 would be a period of harmonising the membership integration, fine tuning service resources and taking stock of the rapid changes within the market place. By the year-end the Club was poised to sign off the 20 February 2000 renewals with a ringing endorsement from the Liverpool & London Club's membership to transfer their entries, representing 4.9 million gt.

North of England's service reputation, innovation, competitive cost base and financial strength were key factors in persuading Liverpool & London's Board that of all the repositioning options under review at the time, a transfer agreement with the Club provided a realistic solution to collecting Liverpool & London's supplementary calls and delivering continuity to its members' rating and service expectations. Although greater critical mass and growth are always welcome, North of England's Board unreservedly supported the transaction on the complementary merits of the Liverpool & London's financially sound and prudently rated members.

The Liverpool & London transaction apart, North of England came through a testing renewal. In the face of very difficult trading conditions of sustained downward pressure on rates, the managers were steadfast in their underwriting approach and are pleased to report a small premium increase on the renewed tonnage. The final renewal tonnage of 30 million gt is a significant watershed. It establishes North of England as a financially strong medium sized club with a high quality membership.

Against this vibrant background to the 2000 renewals, the managers are very pleased to report that despite a disappointing investment return, the club's overall financial position continued to strengthen. The P&I class free reserve is now $84.2 million, up 6% on the previous year to reach its highest level ever. In addition, the club's prudent and responsible underwriting has consistently produced one of the best technical underwriting results in the International Group.

A further indicator of the Club's financial strength is its supplementary call record; the Club is now in its ninth year of achieving its estimated supplementary calls. Critical to this stability is the Club's reinsurance programme. Over the last 12 months the Association has conducted a thorough review of its retention reinsurance programme. This has included a detailed assessment of the benefits and costs of so-called alternative risk transfer arrangements, which are primarily structured to provide intermediate balance sheet stability.

The Directors and Managers have concluded that at the present time the Club's interests are best served by risk-transfer reinsurance and by an existing combination of reinsurance arrangements, namely excess-of-loss and stop-loss, in a restructured form. This programme gives the Association the benefit of both significantly reduced overall cost and a lower level of retained risk. It takes advantage of favourable reinsurance market conditions, an excellent record and the increased purchasing power of the Club following the acquisition of tonnage from both the Newcastle and Liverpool & London Clubs. The terms have been fixed for a period of three years with AAA security ensuring stability of costs and protection from any adverse claims development.

The multi-year arrangements provide real protection to the membership and, when combined with the Club's overall financial strength and sound underwriting performance, significantly reduces the risk of unbudgeted premiums.

As for the future, the managers are confident that the Association's security, financial strength, comprehensive reinsurance and diversified membership establishes an excellent platform from which to develop. Nevertheless, the managers are under no illusions as to the challenges ahead. The P&I industry is going through a phase of radical evolution. The quest for economies of scale, in part driven by the transparency of each club's expense base, may result in further consolidation amongst the P&I mutuals. The more likely development is an alignment of mutual and commercial interests to develop new products and services. Some club management groups have already forged market alliances to create multi-product insurance services.

In a competitive market the "one-stop" shop philosophy has obvious attractions. Whereas it may prove to be the shape of things to come, North of England's strategic priorities remain focused on developing the Club's expertise, commitment and resources to provide a standard of service which is cost-effective, efficient and innovative. For the time being, blending management vision with pragmatism about the future course of the market will be a constant theme throughout our operations and planning.

FINANCIAL REVIEW

North of England's overall financial position has continued to strengthen despite difficult insurance and investment markets. Net assets stand at $320.5 million and the P&I class free reserve has increased to $84.2 million – its highest level ever and 6% up on the previous year. The Club has also retained its BBBpi (good) rating in Standard & Poor's 2000 Marine Mutual Report.

The fall in premiums written during 1999/2000 was largely attributable to inclusion in 1998/99 of a reinsurance-to-close premium paid in relation to the Newcastle P&I Association merger. Discounting this one-off payment, the underlying premium increased by 1.4% despite a very competitive market. Downward pressure on rates and low investment returns will undoubtedly exacerbate the underwriting losses faced by all International Group Clubs and should force a review of underwriting philosophy throughout the P&I sector.

The competitive environment was also fuelled by the 1999 International Group Agreement requirement for clubs to disclose their average expense ratio for the last five years. North of England's 1999/2000 ratio, which measures all costs not directly related to claims management against premiums and investment income, is 7.7%. Although reduced investment return has adversely affected our ratio when compared with last year, the Club's cost base continues to be very competitive. The Club's philosophy has always been to provide Members with a high level of service and to encourage them to treat the Club as an extension of their own offices. This has been achieved at competitive cost levels.

INVESTMENTS

The 1999/2000 period proved to be the most disappointing for global investment markets since 1994/95. The Club's Combined Index, which includes global equities and global bonds, returned only 2.6% for the financial year. The Club's investment portfolios returned a disappointing 0.06% primarily as a consequence of poor equity performance.

EQUITIES

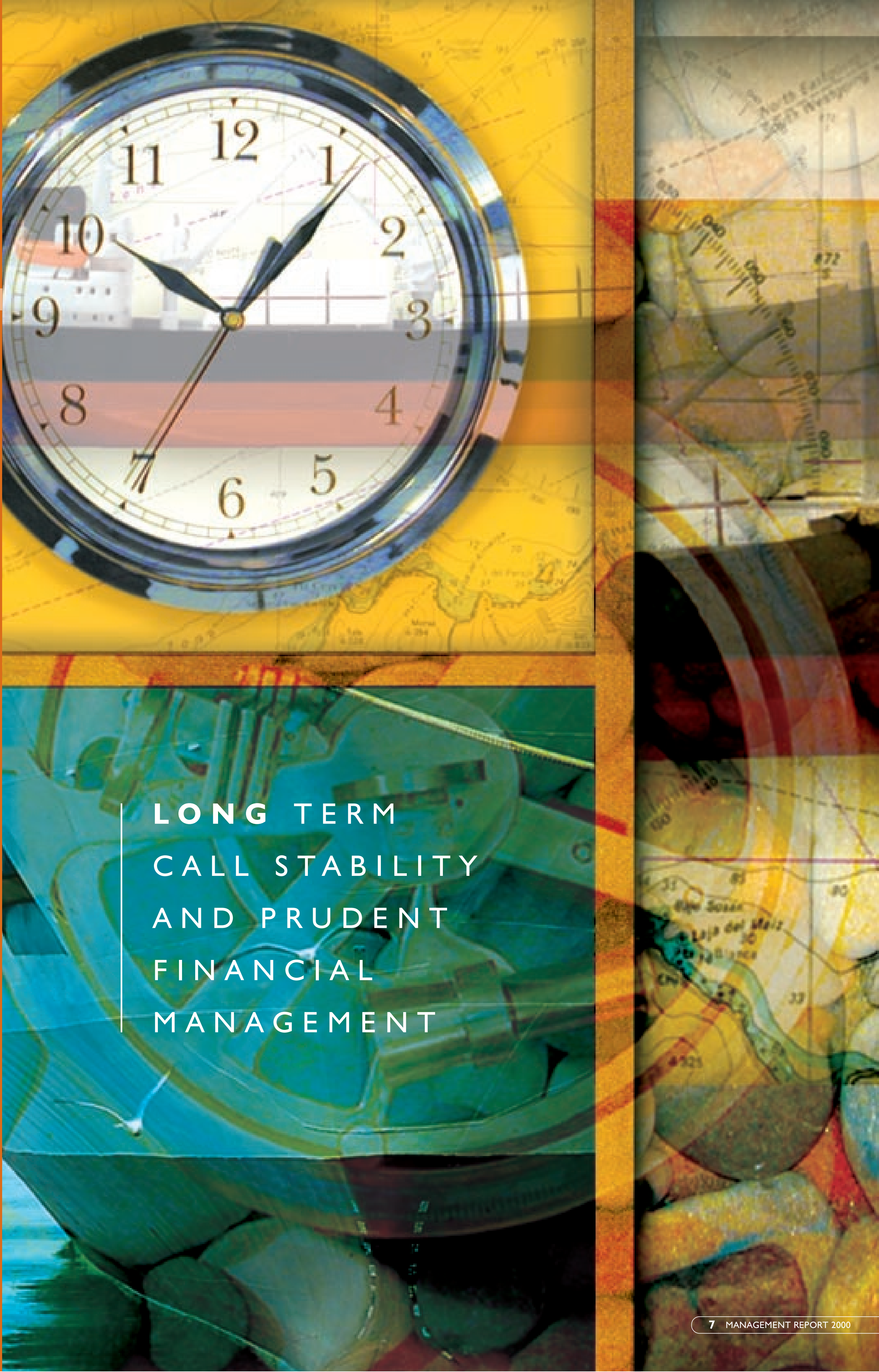
The Club's investment philosophy has always been one of capital preservation and our concerns over market volatility were thus reflected in a defensive equity portfolio. Investments in stable, value stocks (particularly in the US) performed poorly when compared with the dramatic increases in some of the new economy stocks.

CHART 1

P&I CLASS NET ASSETS
(US$ MILLIONS)

CHART 2

P&I CLASS FREE RESERVES
(US$ MILLIONS)



LONG TERM CALL STABILITY AND PRUDENT FINANCIAL MANAGEMENT

FINANCIAL REVIEW

FIXED INCOME

1999/2000 was also a very poor year for bond investors. The Club's bond portfolios returned -2.1% against an Index of -1.2%. The steady rise in US bond yields and the fall of the Euro were the principal causes of the negative returns.

The rise in US and European bond yields over the period was due to the rapid recovery in global growth from the financial crisis of the third quarter of 1998. Aggressive monetary stimulation by the Federal Reserve in the fourth quarter of 1998 served to ignite growth in the US which spread to the rest of the world. The resurgence of growth resulted in a modest rise in inflation led by fuel prices which caused the Federal Reserve to reverse course in June 1999. Imports into the strong US economy drove the trade deficit to record highs.

The Euro decline was due to the strong relative growth of the US economy compared to Europe and the massive capital outflow from Europe to the US for the purchase of US Corporate bonds and equities, particularly the technology sector. This took analysts by surprise, who had expected high growth in Europe causing European interest rates to rise close to US levels. Analysts also expected the US Dollar would have to weaken in order to attract investment flows from abroad to balance the trade deficit.els.

FUTURE STRATEGY

Although the Club's annualised 5 year investment return was a very reasonable 9%, the disappointing performance in 1999/2000 prompted the appointment of two new equity-based investment advisors with effect from 1 April, 2000. A detailed analysis of the Club's financial position and liability profile concluded that we should seek in the medium term to invest 30% of the overall portfolio in global equities and 70% in predominantly AA and AAA bonds and cash.

CHART 3

INVESTMENT PORTFOLIO

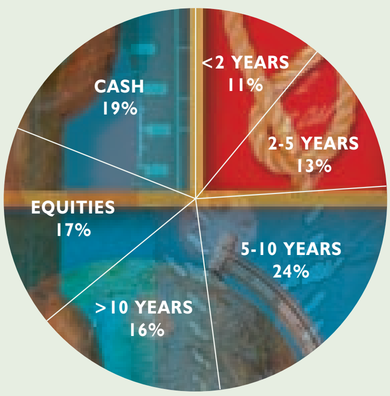
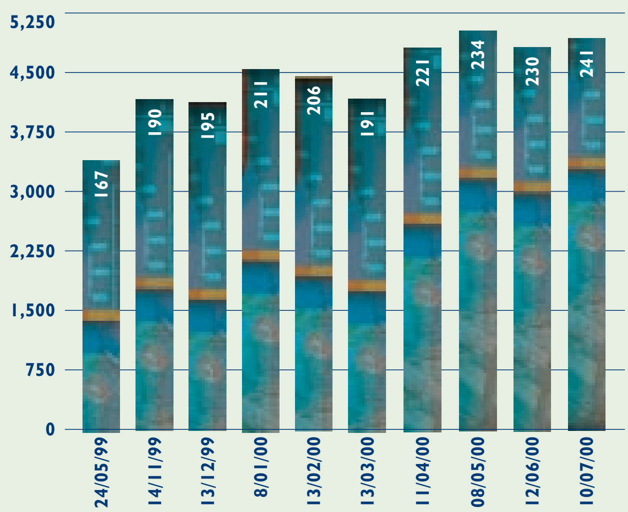


CHART 4

TIME CHARTER ENTRIES

NUMBER OF SHIPS

gt 000



REINSURANCE

The Club's reinsurance is split between the International Group's pooling and excess loss programme and the placement of retention reinsurance. The Club also has a quota share reinsurance contract with North of England Mutual Insurance Association (Bermuda) Limited. This enables 90% of the Club's risks to be reinsured through the Bermuda company which is wholly owned by the members. The financial statements for the Association and North of England Bermuda are provided to members in separate documents but are combined in this report to provide a clear overview of the financial position of both Clubs at 20 February, 2000. The combined figures form the basis of the return to the UK Financial Services Authority.

Being a member of the International Group of P&I Clubs, North of England participates in the Group Pooling Agreement and its excess-of-loss reinsurance contract. As a result of a continuing good loss record and favourable reinsurance market conditions, the Group has been able to renew this contract for 2000/2001 with a further overall reduction in premium, increasing the limit of cover on pollution from $500 million to $1 billion and terms held for two years. This is the latest of a series of very significant reductions at each renewal since 1995, though it is anticipated that the reinsurance market may harden in the near future.

The overall limit of reinsurance cover, other than for pollution remains at just over $2 billion. Any claim in excess of this would be dealt with by an overspill call up to an overall limit of approximately $4.25 billion each claim. However, North of England now has additional reinsurance to cover its members' contributions for the first $1 billion of an overspill claim. This provides additional protection for the members and the Club's reserves.

The Group excess-of-loss contract covers claims above the International Group pool limit of $30 million, except that the pool now retains 15% of claims up to $100 million (previously $50 million) and also co-insures 10% of claims in the range $30 million to $530 million. This co-insurance is protected by a separate reinsurance contract.

For many years North of England has also placed separate reinsurances to protect its retention of $5 million on each claim under the Group Pool. This has been in the form of a combination of excess-of-loss reinsurance and a stop-loss contract which limits the Association's exposure to the aggregation of losses not otherwise protected by excess-of-loss reinsurance. This arrangement also protects the Association's share of pool contributions.

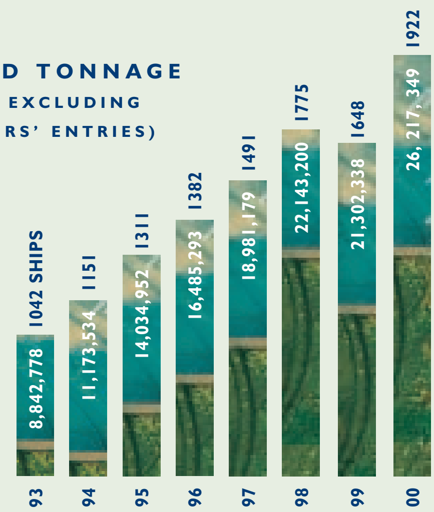
CHART 5

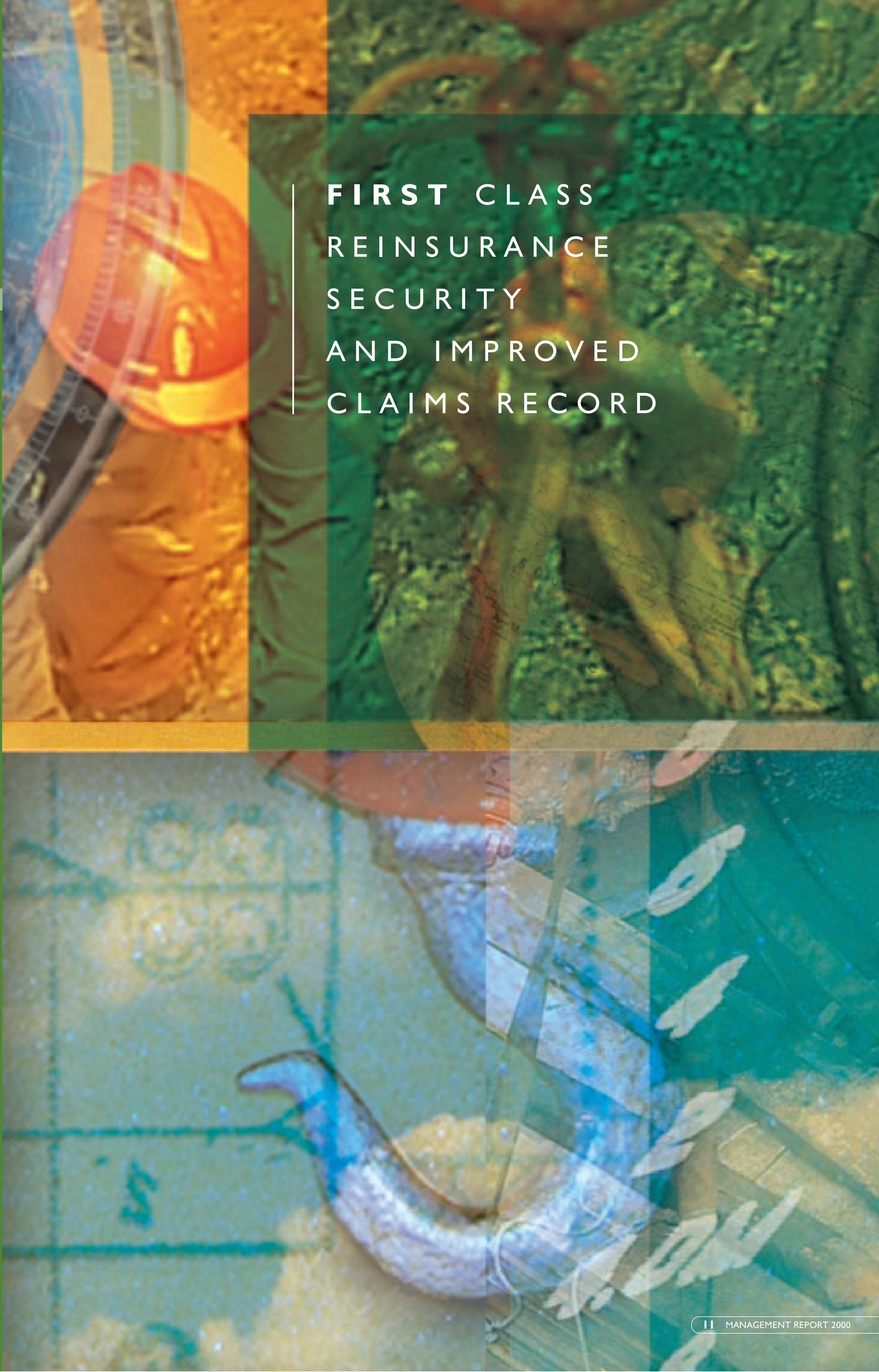
REINSURANCE

CHART 6

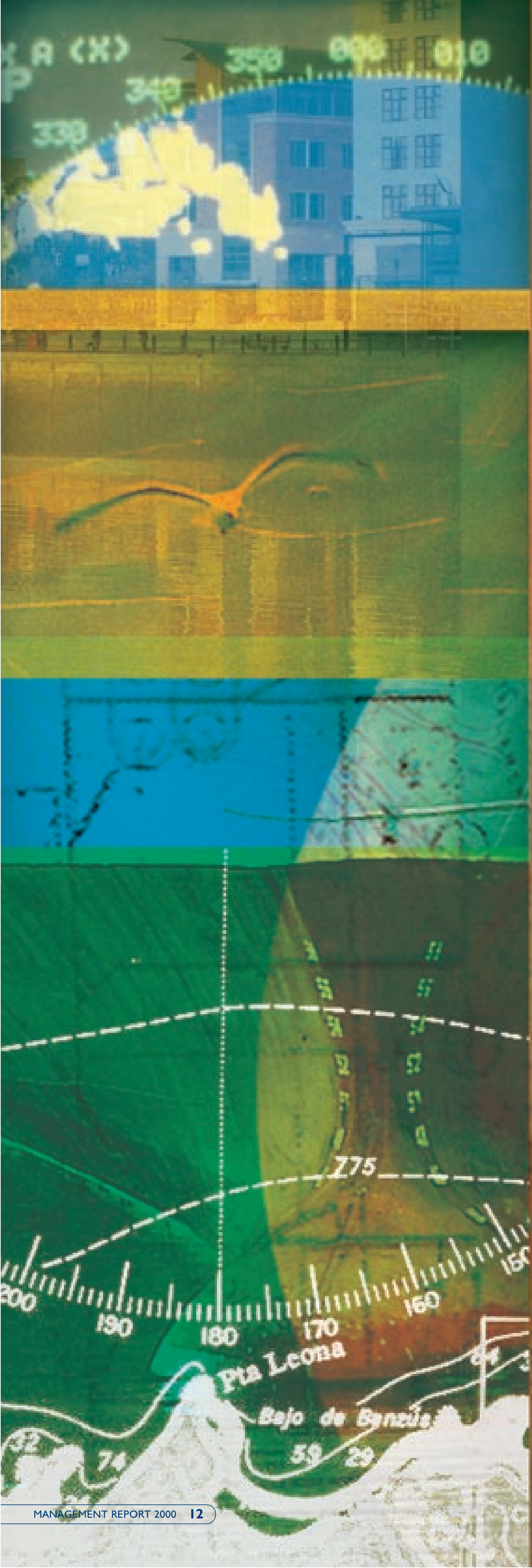
ENTERED TONNAGE

(AVERAGE EXCLUDING CHARTERERS' ENTRIES)





FIRST CLASS REINSURANCE SECURITY AND IMPROVED CLAIMS RECORD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P & I CLAIMS AND SERVICE

North of England's 1999 claims experience reflects the much harsher liability environment. In some parts of the world legitimate environmental concerns are often grossly exaggerated in order to pursue unwarranted levels of compensation. Crew claims also remain a huge cost to the industry, with injured crewmen seeking inflated damages by forum shopping in the United States and yet unfit seamen routinely pass through inadequate health screening.

Five of the Club's currently reserved claims fall within the $1-2 million band, the largest being a reefer claim of just over $1.7 million. Nevertheless the overall claims development for 1999 does not show any adverse deviation from projections and shows a marked improvement on 1997. Similarly, despite seven claims reserved in excess of $1 million and the largest at $3 million, the 1998 policy year continues to develop within original estimates and well down on the 1997 year. The 1997 policy year, which 12 months ago appeared to have peaked, continues to improve significantly against the outstanding reserves. Compared to the claims experience of later years it appears that 1997 was an aberrant year.

Maintaining the Club's reputation for providing members with the best possible service, alongside truly cost-effective claims management, remains one of our primary objectives.

This is achieved by cultivating and maintaining close personal contacts with members in order to understand their individual claims handling requirements. The Club's highly qualified and experienced claims team ensures that each member receives dedicated advice and assistance on bills of lading, charterparties, crew contracts, indemnity wordings, passenger tickets, technical advice on cargoes, stowage, crew safety, the implications of new legislation and regulations or any other issue for which a member needs support or assistance. Above all, the claims team strives to apply lateral risk management solutions which have a positive bottom line impact.

Our close co-operation with members also leads to a much more effective response to casualties and claims. This helps to minimise the impact of any claim on our members' records and, by understanding their commercial interests, we can ensure the least possible disruption to their day-to-day business.

CHART 7

ENTERED TONNAGE

(BY SHIP TYPE)

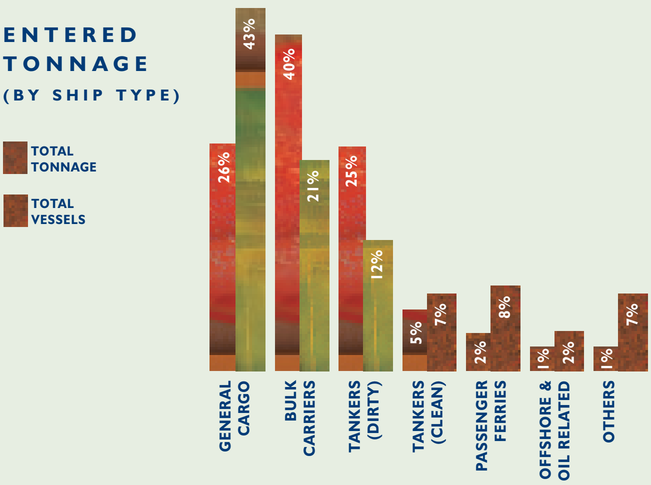
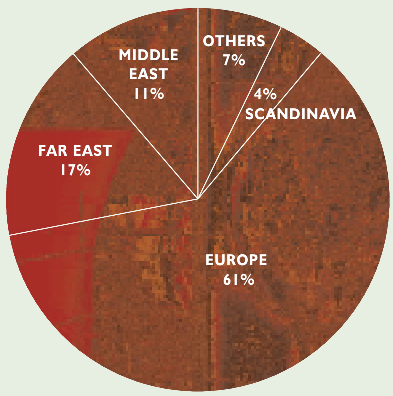


CHART 8

ENTERED TONNAGE

(BY AREA OF MANAGEMENT)



FD&D CLAIMS

As with the previous year, the dominant feature of the 1999 period has been the further development and strengthening of the club's FD&D service management resources. The sixteen strong team of multi jurisdictional lawyers creates a strategic in-house self sufficiency aimed at keeping legal costs to a minimum without compromising the quality and standard of legal services expected and demanded by the membership.

The number of case files opened during the year was in fact slightly down on the previous year to 632. This was undoubtedly a reflection of the improved freight market, but correspondingly the defence team handled over 1000 logged requests for assistance. In many cases the inquiries were routine, but increasingly the defence team are adopting a proactive advisory role on charterparties, bills of lading, MOA's and other contracts. Often potentially costly and time consuming disputes can be avoided by pre-checking the wording of a charterparty clause or even pre-vetting the charterer's status through the Club's membership of the International Maritime Bureau's 'Chartering Experience' programme.

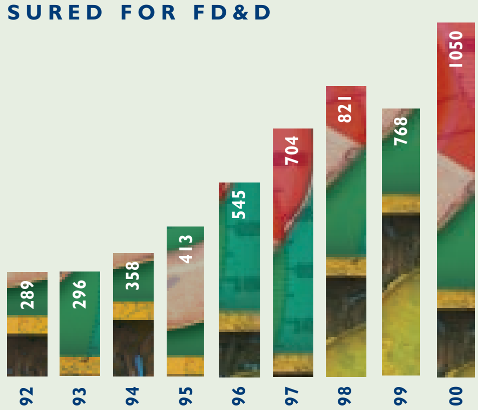
Predictably most of the claims referred to the Association throughout the policy year for support related to charterparty disputes involving charterer's or sub-charterer's breach of their obligations. Exceptional disputes arose in connection with unpaid third party suppliers to the previous charterers, overheated coal cargoes, three ship grounding cases and 4 unsafe port claims of which 3 arose out of groundings and a fourth from range damage.

With the upturn in the second hand market it's no surprise to see an increase in MOA disputes, particularly claims by third parties to enforce maritime liens which, unbeknown to the member at the time the vessel is purchased, attach against the vessel. To minimise the disruption and financial cost exposure, the managers launched in July a tailor-made maritime lien insurance cover complemented by a 'Writ Search' facility with lawyers in London, Hong Kong, Singapore and Durban who will undertake a search of the court registers in those jurisdictions to establish the existence of any claims against the ship. The special cover insures the member up to a limit of $500,000 in respect of any financial losses flowing directly from the existence of the lien.

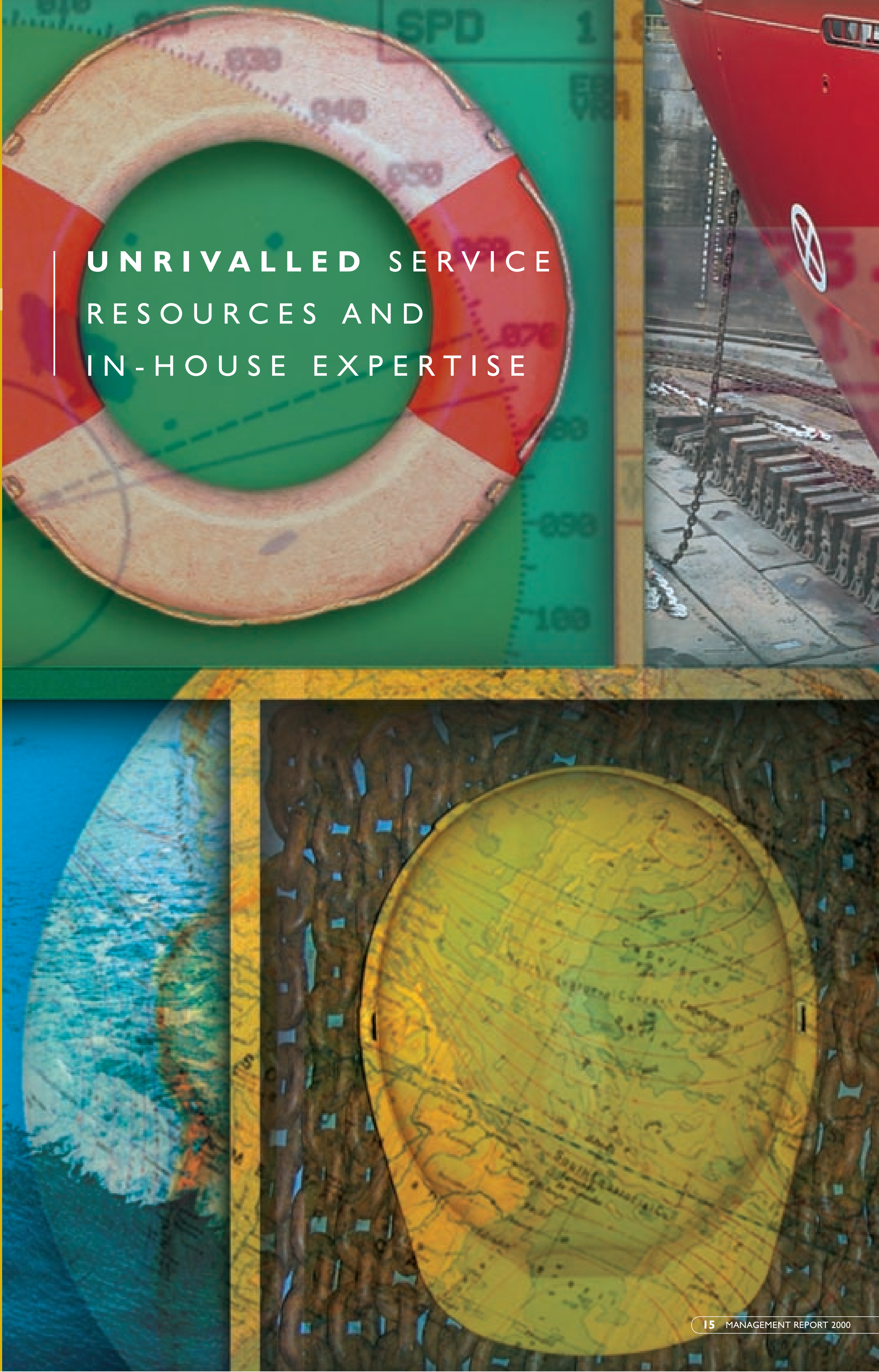
By the year-end, membership of the class stood at 844 entered ships. Following the renewal at 20 February 2000 the class was boosted by the transferring Liverpool & London members as well as other new members to 1050 ships.

CHART 10

AVERAGE NUMBER OF SHIPS INSURED FOR FD&D



UNRIVALLED SERVICE RESOURCES AND IN-HOUSE EXPERTISE



LOSS PREVENTION

Loss prevention continues to be at the forefront of the Club's service ethos and is seen as a vital part of developing and maintaining close member relations. During 1999 the Club successfully hosted a series of popular training and loss prevention forums, steered the membership through the potential millennium computer mayhem and bade farewell to Tugg Wilson, the illustrator of the Club's trademark loss prevention calendars. The year 2000 calendar was Tugg's last humorous poke at shipboard life before retiring.

Throughout the year the membership continued to receive the highly acclaimed *Signals* newsletter together with special edition reports, posters, videos and books aimed at fostering greater loss prevention awareness and encouraging higher standards of ship management, operation and manning.

Recent topics included personal injury prevention and a *Signals* special issue on safe navigation. As a follow up to the Nautical Institute sponsored book *Mariner's Role in Collecting Evidence,* Phil Anderson, head of the Club's loss prevention programme, also wrote the *Mariner's Guide to Marine Insurance.* Copies were widely circulated within the industry, including members' offices and ships. Club managers Mike Salthouse and Richard Bracken also started writing a book entitled *Bunker Claims* to add to the Club's popular series of specialist loss prevention guides.

To complement the loss prevention material the club organised several educational and forum events throughout the 1999 period. Five-day courses were run in the UK and Cyprus. Shorter courses and seminar events dealing with practical loss prevention and risk management problems were held in Dubai, Greece, India, Singapore, Malaysia, and Manila. Future events will focus on developing in-house loss prevention programmes tailored to members' individual operational and risk-management needs.

Strategic to the success of loss prevention's general advisory service is the Club's ship inspection and fleet claims review policy. Cargoworthiness, manning, general maintenance, safety, including safe working practises and operational state, all form part of the ship condition and vetting review process. These quality inspections are reinforced by a critical claims review of selected fleets throughout the year by an internally appointed audit team. This added dimension to loss prevention is paramount to maintaining the quality base of the membership.

INDUSTRY MATTERS

POLLUTION

The shipping industry's crusade against substandard shipping was given fresh ammunition by the *Erika* pollution disaster off the French coast in December 1999. The European Commission now wants to accelerate the phasing out of single hull tankers and there are also likely to be far reaching changes to European environmental laws. At the very least, questions over the effectiveness and fairness of the CLC and IOPCF compensation regimes will lead to a broadening of the existing conventions so that ship and cargo interests won't be the only parties in the firing line after a pollution claim incident.

The European Commission is also behind the European Quality Shipping Info System (Equasis), a website database geared to promoting greater transparency on the quality of ships and their operators. The system, launched in May 2000, includes basic information on ships, current classification, ISM status, P&I arrangements, detentions, survey results and ownership details and changes. Equasis would probably not have prevented the Erika disaster but the website does hold useful information about a ship and its pedigree, management status and Port State reports. Users, including P&I clubs, should now at least be able to make better informed qualitative decisions.

PASSENGER LIABILITY LIMITS

The 1999 policy year has once again been an active period for the IMO Legal Committee in driving forward ongoing initiatives relating to passenger limits, bunker spills and compulsory P&I insurance. The issue of devising a new compensation regime for passengers as a Protocol to the 1974 Athens Convention has proved a political hotbed.

Most states support the move towards higher limits, but views differ on whether it is sufficient to increase them *per se* or impose strict and higher limits backed by certificates of financial responsibility.

Some states are proposing a strict liability regime with minimum guaranteed cover limits of US$425,000 per passenger. If this view prevails, the potential liability exposure of US$1.5 billion for the largest cruise ships has enormous capacity and political implications for the International Group pool. For the time being the Group continues to lobby for a more moderate solution.

BUNKER SPILLS

The issue of a strict liability compensation scheme for bunker spills has also continued to tax the IMO Legal Committee. As with the concept of no fault passenger claims, IMO is considering imposing the right of direct action against the ship owner for bunker spill compensation.

To be on track for adoption at the IMO Diplomatic Conference in 2001, the proposed new Bunker Convention envisages that all ships above the minimum tonnage will be required to carry CLC-type certificates as evidence of financial responsibility. The Group maintains that this convention is pointless as the clubs always respond to claims for damage caused by the escape of bunker fuel.

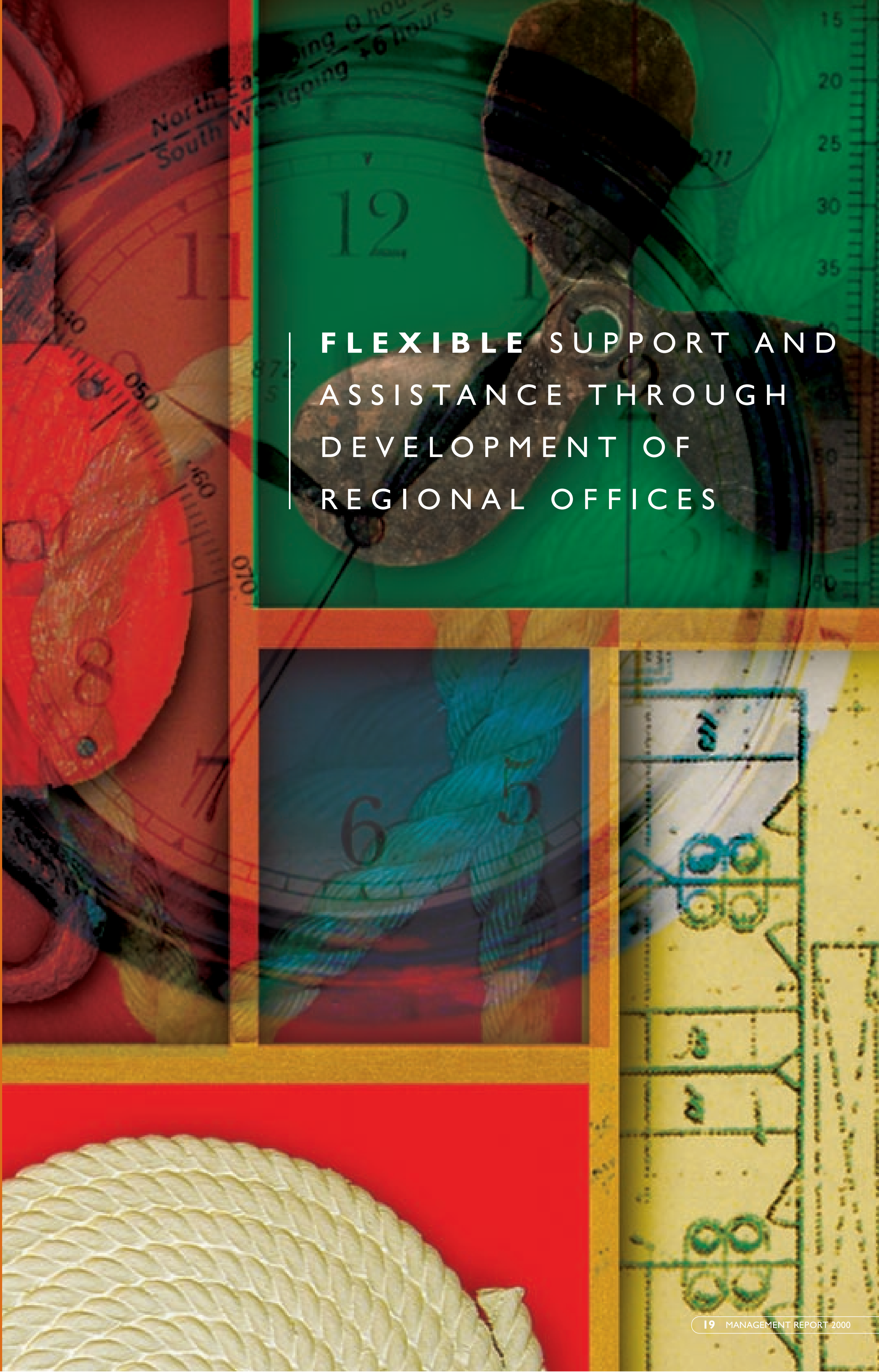
COMPULSORY INSURANCE

Underlying both the IMO's passenger and bunker spill initiatives is the issue of compulsory insurance. This would provide claimants with a right of action against the P&I club or other guarantor, impose strict liability and require each ship to hold a valid certificate of insurance.

LEGAL DEVELOPMENTS

The Contract (Rights of Third Parties) Act 1999 passed onto the UK statute books last November. It enables a person who is not a party to a contract - a third party - to take action under English law to enforce a term of the contract, either if the terms says he can, or if it 'purports to confer a benefit upon him'. Such a third party does not need to be named but must be identified.

As a consequence, the Act will now confer limitation and defence rights upon agents and sub-contractors without resorting to the artful but uncertain agency structure of the Himalaya Clause. Feedership contracts, slot charterparties, bills of lading and ship management contracts are typical of the contracts which employ the Himalaya principle for the benefit of third parties.



FLEXIBLE SUPPORT AND ASSISTANCE THROUGH DEVELOPMENT OF REGIONAL OFFICES

CONTENTS

COMBINED FINANCIAL STATEMENTS

The Club's financial statements for the year ended 20 February 2000 are enclosed as a separate document and North of England (Bermuda) financial statements for the same period will be mailed to members on behalf of the managers of that company. Combined Financial Statements follow on pages 24 to 37 and have been prepared to allow members to gain a picture of the overall position. Although the statements have been prepared for illustrative purposes only and have no legal standing, the return to the Financial Services Authority is based upon the combined position.

ACCOUNTANTS' REPORT

REPORT TO THE MEMBERS OF THE NORTH OF ENGLAND PROTECTING AND INDEMNITY ASSOCIATION LIMITED.

We have reviewed the accounting policies applied and calculations made in preparing the combined accounts and policy year statements, as set out on pages 24 to 37, from the consolidated statutory accounts of North of England P&I Association Limited ("The Association") and the statutory accounts of North of England Mutual Insurance Association (Bermuda) Limited ("NoE(Bermuda)").The auditors' report for the Association was issued by Arthur Andersen and the auditors' report for NoE(Bermuda) was issued by Moore, Stephens & Butterfield. Both reports were unqualified. The managers of the Association are solely responsible for the combined accounts and their basis of preparation. The combined accounts are prepared for illustrative purposes only.
In our opinion:
The combined accounts have been properly compiled from the consolidated accounts of the Association and the accounts of NoE(Bermuda) and in accordance with the basis of preparation adopted by the managers of the Association and such basis is consistent with the accounting policies normally adopted by the Association and NoE(Bermuda) respectively.

The combined policy year statement has been properly compiled in accordance with the notes to the statement and the principles and practices adopted in preparing the combined accounts.

Arthur Andersen

Chartered Accountants

Newcastle upon Tyne

30 June 2000

COMBINED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 20 FEBRUARY 2000

	Notes	TOTAL 2000 US$000's	TOTAL 1999 US$000's	PROTECTING & INDEMNITY CLASS 2000 US$000's	PROTECTING & INDEMNITY CLASS 1999 US$000's	FREIGHT, DEMURRAGE & DEFENCE CLASS 2000 US$000's	FREIGHT, DEMURRAGE & DEFENCE CLASS 1999 US$000's	WAR RISKS CLASS 2000 US$000's	WAR RISKS CLASS 1999 US$000's
TECHNICAL ACCOUNT – GENERAL BUSINESS									
Gross premiums written	2	88,403	226,138	81,974	219,207	6,429	6,924	–	7
Outward reinsurance premiums	3	(16,776)	(25,152)	(16,111)	(24,691)	(558)	(358)	(107)	(103)
		71,627	200,986	65,863	194,516	5,871	6,566	(107)	(96)
Allocated investment return transferred from the non-technical account		1,967	24,496	2,205	23,485	(174)	685	(64)	326
(Losses)/Gains on exchange		(3,160)	2,152	(2,983)	2,116	(144)	47	(33)	(11)
Total technical income		70,434	227,634	65,085	220,117	5,553	7,298	(204)	219
Claims paid									
Gross amount	4	(88,370)	(84,935)	(84,734)	(81,977)	(3,636)	(2,958)	–	–
Reinsurers' share		7,286	3,408	7,286	3,408	–	–	–	–
		(81,084)	(81,527)	(77,448)	(78,569)	(3,636)	(2,958)	–	–
Change in the provision for claims									
Gross amount	5	25,734	(146,753)	24,897	(142,399)	837	(4,354)	–	–
Reinsurers' share		268	38,312	2,047	36,113	(1,779)	2,199	–	–
		26,002	(108,441)	26,944	(106,286)	(942)	(2,155)	–	–
Net operating expenses	6	(11,418)	(10,674)	(9,899)	(9,303)	(1,418)	(1,276)	(101)	(95)
Total expenditure		(66,500)	(200,642)	(60,403)	(194,158)	(5,996)	(6,389)	(101)	(95)
Balance on the technical account for general business		3,934	26,992	4,682	25,959	(443)	909	(305)	124
NON-TECHNICAL ACCOUNT									
Balance on the general business technical account		3,934	26,992	4,682	25,959	(443)	909	(305)	124
Investment income	7	11,057	17,935	10,790	17,024	263	552	4	359
Unrealised (losses)/gains on investments		(8,277)	7,365	(7,804)	7,225	(405)	166	(68)	(26)
Investment expenses and charges		(813)	(804)	(781)	(764)	(32)	(33)	–	(7)
		1,967	24,496	2,205	23,485	(174)	685	(64)	326
Allocated investment return transferred to the general business technical account		(1,967)	(24,496)	(2,205)	(23,485)	174	(685)	64	(326)
Surplus/(Deficit) on ordinary activities before tax		3,934	26,992	4,682	25,959	(443)	909	(305)	124
Tax on ordinary activities	8	58	(747)	55	(716)	2	(21)	1	(10)
Surplus/(Deficit) for the financial year		3,992	26,245	4,737	25,243	(441)	888	(304)	114
Transfer to Contingency fund	10	(10,324)	(18,222)	(9,379)	(17,303)	(945)	(919)	–	–
Transfer (from)/to Income and Expenditure reserve		(6,332)	8,023	(4,642)	7,940	(1,386)	(31)	(304)	114
Income and Expenditure reserve brought forward		9,778	1,755	7,591	(349)	(2,467)	(2,436)	4,654	4,540
Income and Expenditure reserve carried forward		3,446	9,778	2,949	7,591	(3,853)	(2,467)	4,350	4,654

COMBINED BALANCE SHEET

AT 20 FEBRUARY 2000

	Notes	TOTAL 2000 US$000's	TOTAL 1999 US$000's	PROTECTING & INDEMNITY CLASS 2000 US$000's	PROTECTING & INDEMNITY CLASS 1999 US$000's	FREIGHT, DEMURRAGE & DEFENCE CLASS 2000 US$000's	FREIGHT, DEMURRAGE & DEFENCE CLASS 1999 US$000's	WAR RISKS CLASS 2000 US$000's	WAR RISKS CLASS 1999 US$000's
ASSETS									
Investments									
Land and buildings		7,027	7,051	7,027	7,051	–	–	–	–
Other financial investments	9	284,282	287,564	269,454	274,095	10,483	9,089	4,345	4,380
		291,309	294,615	276,481	281,146	10,483	9,089	4,345	4,380
Reinsurers' share of technical provisions									
Claims outstanding		96,518	96,250	93,902	91,855	2,616	4,395	–	–
Debtors									
Estimated net product of future supplementary calls		18,637	20,589	18,637	20,589	–	–	–	–
Debtors arising out of direct insurance operations		20,096	18,457	18,575	16,939	1,521	1,518	–	–
Debtors arising out of reinsurance operations		11,335	33,823	11,333	33,823	2	–	–	–
Other debtors		4,349	1,428	4,407	1,407	–	903	7	155
		54,417	74,297	52,952	72,758	1,523	2,421	7	155
Other assets									
Tangible assets		1,120	1,116	1,120	1,116	–	–	–	–
Cash at bank and in hand		9,228	15,524	8,913	15,142	284	260	31	122
		10,348	16,640	10,033	16,258	284	260	31	122
Prepayments and accrued income		3,412	2,484	3,317	2,369	95	115	–	–
Total assets		456,004	484,286	436,685	464,386	15,001	16,280	4,383	4,657
LIABILITIES									
Reserves									
Income and expenditure account		3,446	9,778	2,949	7,591	(3,853)	(2,467)	4,350	4,654
Contingency fund	10	85,405	75,081	81,266	71,887	4,139	3,194	–	–
Accumulated surplus		88,851	84,859	84,215	79,478	286	727	4,350	4,654
Revaluation reserve		474	562	474	562	–	–	–	–
		89,325	85,421	84,689	80,040	286	727	4,350	4,654
Technical provisions									
Claims outstanding									
Gross amount		344,169	369,903	329,612	354,509	14,557	15,394	–	–
Provision for taxation		(56)	734	(56)	734	–	–	–	–
Creditors									
Creditors arising out of direct insurance operations		791	2,040	775	1,951	16	89	–	–
Creditors arising out of reinsurance operations		11,320	14,947	11,237	14,913	50	31	33	3
Amounts owed to credit institutions		4,556	4,467	4,556	4,467	–	–	–	–
Other creditors		4,985	6,240	4,985	7,247	65	30	–	–
		21,652	27,694	21,553	28,578	131	150	33	3
Accruals and deferred income		914	534	887	525	27	9	–	–
Total liabilities		456,004	484,286	436,685	464,386	15,001	16,280	4,383	4,657

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of preparation

The combined accounts aggregate the consolidated accounts of North of England P&I Association Limited ("the Association") and the accounts of North of England Mutual Insurance Association (Bermuda) Limited ("NoE(Bermuda)"), after the elimination of intercompany transactions and balances. Figures for the Association are extracted from the audited consolidated accounts as at 20 February 2000, which have been prepared in accordance with UK company law, and which included an unqualified audit report from Messrs Arthur Andersen, Newcastle upon Tyne. Figures for NoE(Bermuda) are extracted from the audited accounts as at 20 February 2000, which have been prepared in accordance with accounting principles generally accepted in the United Kingdom, and which included an unqualified audit report from Messrs Moore, Stephens & Butterfield, Bermuda.

Calls and premiums

Calls and premiums, less returns and bad and doubtful debts, are credited to the consolidated income and expenditure account as and when notified to Members.

Reinsurance premiums

Reinsurance premiums, less returns, are debited to the consolidated income and expenditure account in the financial year as and when charged to the Association, together with a provision for the future costs of existing reinsurance policies.

Claims and related expenses

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

Full provision is made for outstanding claims which are based upon the Association's best estimate of the ultimate likely cost of individual claims notified but not paid at the balance sheet date. Provision is also made for claims incurred but not reported (IBNRs) based on statistical methods. Both the individual estimates and the IBNR methodology are reviewed on a regular basis. Although 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. Provision for the cost of claims handling is included within the IBNRs.

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 consolidated 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 Association.

Pension costs

The regular cost of providing retirement pensions is charged to the consolidated income and expenditure account over the employees' service lives on the basis of a constant percentage of earnings. Variations from regular cost, arising from periodic actuarial valuations, are allocated over the expected remaining service lives of current employees on the basis of a constant percentage of current and estimated future earnings.

Taxation

UK Corporation Tax is provided on relevant investment income. Provision is made for deferred tax at 30% on timing differences using the liability basis, but only insofar as liabilities are expected to become payable within the foreseeable future.

Allocation to policy years

Calls and premiums net of brokerage costs, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy years to which they relate. Investment income, gains and losses on sales of investments and exchange gains and losses are allocated on the basis of cash inflows and outflows to and from the relevant policy year or the Contingency Fund. Investment and administration expenses are allocated to the policy year in which they arise. Policy years are kept open for no longer than four years. Any surplus or deficit remaining at the closure of a policy year is transferred to or from the contingency fund.

Investments

All investments are stated in the balance sheet at the mid-market value on the balance sheet date.

The freehold property is stated at current value. Depreciation is not provided on the property as it is the policy to maintain the building to a high standard. The Directors therefore consider the useful life of the property to be long and the residual value high such that there is no significant annual depreciation charge.

Tangible fixed assets and depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write down the assets to the estimated residual values over the course of their anticipated working lives.

The rates and bases of depreciation used for assets held in the UK are as follows:

Computer Equipment	20% per annum straight line method.
Motor Vehicles	25% per annum reducing balance method.
Office Equipment and Fittings	20% per annum straight line method.

Fixed assets held in Hong Kong are depreciated at a rate of 50% per annum using the straight line method.

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 are translated at a monthly average rate of exchange.

The principal rates of exchange ruling at the balance sheet date were as follows:

		2000			1999	
United Kingdom	£	0.626	=	US$1	(£	0.614)
Germany	DM	1.985	=	US$1	(DM	1.763)
Japan	YEN	110.795	=	US$1	(YEN	120.530)

2. GROSS PREMIUMS WRITTEN

	2000 US$000's	1999 US$000's
Gross premiums charged	91,110	98,826
Change in provision for future calls	(1,952)	1,782
Newcastle P&I Association	(755)	125,530
	88,403	226,138

3. REINSURANCE PREMIUMS

	2000 US$000's	1999 US$000's
Market	11,423	16,320
International Group	5,246	6,801
War Risks Group	107	103
Market – Newcastle P&I Association	–	1,928
	16,776	25,152

4. GROSS CLAIMS PAID

	2000 US$000's	1999 US$000's
Members' claims	62,194	48,900
Newcastle P&I Association reinsurance	16,028	26,265
Other P&I Clubs' pool claims	3,969	3,266
Claims handling costs	6,179	6,504
	88,370	84,935

5. CHANGE IN THE PROVISION FOR GROSS CLAIMS

	2000 US$000's	1999 US$000's
Members	(9,336)	63,754
Newcastle P&I Association reinsurance	(21,581)	86,711
Pooling agreement	5,183	(3,712)
	(25,734)	146,753

6. NET OPERATING EXPENSES

	2000 US$000's	1999 US$000's
Brokerage	5,078	5,490
Acquisition costs	2,151	1,385
Administration expenses		
Gross	10,619	10,622
Merger expenses	776	711
Amount recharged to Marine Shipping Mutual Insurance Limited	(1,027)	(1,030)
Claims handling costs	(6,179)	(6,504)
	4,189	3,799
Net operating expenses	11,418	10,674

In accordance with Schedule 3 of the International Group Agreement 1999 we are required to disclose the Average Expense Ratio for the Association's P&I business for the five years ended 20 February 2000. The Ratio of 7.7% has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements.

7. INVESTMENT INCOME

	2000 US$000's	1999 US$000's
Income from listed investments	9,742	10,457
Bank and other interest receivable	1,356	762
Realised (losses)/gains	(41)	6,716
	11,057	17,935

8. TAX

	2000 US$000's	1999 US$000's
Corporation tax on investment income at 30% (1999 – 31%)	(58)	747
(Credit)/Charge for the year	(58)	747

9. OTHER FINANCIAL INVESTMENTS

A policy of holding high quality, low risk marketable investments which provide a spread of currencies and a structured range of maturity dates has been adopted in consultation with merchant bank advisers.

The investments principally consist of listed fixed interest and government securities and equities.

Choice of currency is an important consideration, particularly in the current volatile market conditions and, whilst it is not possible to exactly match assets and liabilities in the various currencies, in order to reduce the effects of currency fluctuations, funds are held in those currencies in which future material settlements are expected to be made.

	2000 US$000's	1999 US$000's
Market Value		
Shares and other variable-yield securities	49,423	63,517
Fixed income securities	193,887	217,777
Unrealised (loss)/gain on forward exchange contracts	(81)	737
Deposits with credit institutions	41,053	5,533
	284,282	287,564
Cost		
Shares and other variable-yield securities	37,648	48,892
Fixed income securities	197,127	215,604
Deposits with credit institutions	41,053	5,533
	275,828	270,029

10. CONTINGENCY FUND

PROTECTING & INDEMNITY CLASS

	2000 US$000's	2000 US$000's	1999 US$000's	1999 US$000's
Balance at 20 February 1999		71,887		54,584
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains/losses and income	4,816		11,996	
Surplus transferred from closed policy years	5,339		16,018	
Merger costs transferred from income and expenditure account	(776)		(711)	
Transfer to 1997/98 policy year	–		(10,000)	
		9,379		17,303
Balance at 20 February 2000		81,266		71,887

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

FREIGHT, DEMURRAGE & DEFENCE CLASS

	2000 US$000's	2000 US$000's	1999 US$000's	1999 US$000's
Balance at 20 February 1999		3,194		2,275
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains/losses and income	59		185	
Surplus transferred from closed policy years	886		734	
		945		919
Balance at 20 February 2000		4,139		3,194

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

11. DESIGNATED RESERVES

Given the increases in recent years of pool retentions and the participation of International Group Clubs, by way of coinsurance, in the Group market reinsurance contract, all members of the International Group of P&I Clubs have entered into arrangements (under an agreement dated 20 February 1996) whereby each Club has provided letters of credit in favour of the Bermuda Trust Company. Such letters of credit can only be drawn upon in the event that the Association fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The Association has lodged US$7,641,309 in relation to its participation in the arrangement.

12. NEWCASTLE REINSURANCE TO CLOSE

The contribution of the Reinsurance to Close transaction with Newcastle P&I Association to the Income and Expenditure of the P&I Class was US$4,798,000 (1999 – US$10,626,000).

Newcastle P&I outstanding claims in these accounts are net of recoveries from the International Group of US$19,127,870 and other third party reinsurance recoveries of US$12,558,302.

COMBINED
POLICY YEAR STATEMENTS

COMBINED P&I CLASS POLICY YEAR STATEMENT

	Closed Years US$000's	1997/98 US$000's	1998/99 US$000's	1999/2000 US$000's	Contingency Fund US$000's	Unrealised Gains US$000's	Total US$000's
Calls							
Advance & Fixed Premium							
Invoiced in Prior Years		57,282	63,304	–	–	–	120,586
Invoiced in Current Year		(22)	(279)	56,561	–	–	56,260
		57,260	63,025	56,561	–	–	176,846
Release & Supplementary		22,702	25,060	2,458	–	–	50,220
		79,962	88,085	59,019	–	–	227,066
Reinsurance Premiums		(25,967)	(17,425)	(15,664)	–	–	(59,056)
		53,995	70,660	43,355	–	–	168,010
Investment income, gains on sales of investments and exchange movements		5,923	3,762	962	48,092	8,692	67,431
Transfers		10,000	–	–	35,422	–	45,422
		69,918	74,422	44,317	83,514	8,692	280,863
Members' & Pool Claims		(42,401)	(27,336)	(11,790)	–	–	(81,527)
Expenses & Tax		(7,284)	(10,482)	(9,999)	(2,248)	–	(30,013)
Surplus Available on Closed Years	51,411						51,411
Balances Available for Outstanding Claims	51,411	20,233	36,604	22,528	81,266	8,692	220,734
Estimated Supplementary Calls	–	–	–	18,637	–	–	18,637
	51,411	20,233	36,604	41,165	81,266	8,692	239,371
Outstanding Claims	(61,166)	(57,986)	(58,589)	(54,842)	–	–	(232,583)
Reinsurance Recoveries	9,755	32,476	16,615	3,157	–	–	62,003
	(51,411)	(25,510)	(41,974)	(51,685)	–	–	(170,580)
Surplus/(Deficit) at 20 February 2000 before Newcastle P&I Reinsurance	–	(5,277)	(5,370)	(10,520)	81,266	8,692	68,791
Newcastle P&I Association Reinsurance	–	–	15,424	–	–	–	15,424
Surplus/(Deficit) at 20 February 2000	–	(5,277)	10,054	(10,520)	81,266	8,692	84,215
Surplus/(Deficit) at 20 February 1999	(2,815)	(11,145)	5,054	–	71,887	16,497	79,478

NOTES TO THE COMBINED P&I CLASS POLICY YEAR STATEMENT

1. The Combined P&I Class Policy Year Statement ("the Statement") is based on the combined policy year results of the Association and NoE(Bermuda) ("the Companies"). The Statement aggregates the policy year statements of the Companies and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its P&I risks and accumulated outstanding claims with NoE(Bermuda). The Companies have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2000.
2. Investment income, gains and losses on sales of investments and exchange movements are allocated to policy years and the Contingency Fund on the basis of cash inflows and outflows to and from the relevant policy year/Contingency Fund. Unrealised gains are not allocated to policy years until such time as gains and losses are realised.
3. Calls are net of brokerage.
4. Supplementary call forecasts are as per the Directors' Report.
5. Expenses and tax charged to open policy years are as follows:

	1997/98 US$000's	1998/99 US$000's	1999/2000 US$000's
General and administrative expenses	6,645	9,713	10,049
Merger costs transferred to Contingency Fund	(761)	(711)	(776)
Investment expenses	540	764	781
Taxation	860	716	(55)
	7,284	10,482	9,999

6. Estimated outstanding claims are net of expected reinsurance recoveries from the International Group of P&I Clubs, as reported at 20 February 2000 with the addition of appropriate amounts in each policy year for incurred but not reported (IBNR) claims.
7. A deficit on any open policy year will be funded by expected future investment income and, if necessary, a transfer from the Contingency Fund or by making supplementary calls.
8. Future investment income has not been included in the statement and claims have not been discounted.
9. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability. The surplus on closed years has been transferred to the Contingency Fund.

COMBINED FD&D CLASS POLICY YEAR STATEMENT

	Closed Years US$000's	1997/98 US$000's	1998/99 US$000's	1999/2000 US$000's	Claims Handling Reserve US$000's	Contingency Fund US$000's	Unrealised Losses US$000's	Total US$000's
Calls								
Advance & Fixed Premium								
Invoiced in Prior Years		4,056	5,946	–	–	–	–	10,002
Invoiced in Current Year		34	(91)	6,106	–	–	–	6,049
		4,090	5,855	6,106	–	–	–	16,051
Release & Supplementary		651	195	74	–	–	–	920
		4,741	6,050	6,180	–	–	–	16,971
Reinsurance Premiums		(304)	(356)	(565)	–	–	–	(1,225)
		4,437	5,694	5,615	–	–	–	15,746
Investment income, gains on sales of investments and exchange movements		301	172	14	–	966	(266)	1,187
Transfers		–	–	–	–	3,173	–	3,173
		4,738	5,866	5,629	–	4,139	(266)	20,106
Claims		(2,108)	(978)	(401)	–	–	–	(3,487)
Expenses & Tax		(1,641)	(1,933)	(2,399)	–	–	–	(5,973)
Surplus Available on Closed Years	1,581							1,581
Balances Available for Outstanding Claims	1,581	989	2,955	2,829	–	4,139	(266)	12,227
Outstanding Claims	(1,992)	(3,164)	(3,823)	(3,178)	(2,400)	–	–	(14,557)
Reinsurance Recoveries	411	1,929	276	–	–	–	–	2,616
	(1,581)	(1,235)	(3,547)	(3,178)	(2,400)	–	–	(11,941)
Surplus/(Deficit) at 20 February 2000	–	(246)	(592)	(349)	(2,400)	4,139	(266)	286
Surplus/(Deficit) at 20 February 1999	785	(311)	(680)	–	(2,400)	3,194	139	727

NOTES TO THE COMBINED FD&D CLASS POLICY YEAR STATEMENT

1. The Combined FD&D Class Policy Year Statement ("the Statement") is based on the combined policy year results of the Association and NoE(Bermuda) ("the Companies"). The Statement aggregates the policy year statements of the Companies and eliminates the effect of the reinsurance transaction by which the Association reinsures 90% of its FD&D risks and accumulated outstanding claims with NoE(Bermuda). The Companies have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2000.
2. Investment income, gains and losses on sales of investments and exchange movements are allocated to policy years and the Contingency Fund on the basis of the average balance available for outstanding claims of the relevant policy year/ Contingency Fund. Unrealised gains are not allocated to policy years until such time as gains and losses are realised.
3. Calls are net of brokerage.
4. Supplementary call forecasts are as per the Directors' Report.
5. Expenses and tax charged to open policy years are as follows:

	1997/98 US$000's	1998/99 US$000's	1999/2000 US$000's
General and administrative expenses	1,594	1,879	2,369
Investment expenses	23	33	32
Taxation	24	21	(2)
	1,641	1,933	2,399

6. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.
7. A deficit on any open policy year will be funded by expected future investment income and, if necessary, a transfer from the contingency fund or by making supplementary calls.
8. Future investment income has not been included in the statement and claims have not been discounted.
9. Transfers are made from the Contingency Fund to meet exceptional items and to maintain call stability. The surplus on closed years has been transferred to the Contingency Fund.

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Designed and produced by The Roundhouse Newcastle upon Tyne