MANAGEMENT REPORT 2001

NORTH OF ENGLAND

CONTENTS

Registered in England. Company Registration Number: 505456
V.A.T. Registration Number: 178 1131 69

MANAGEMENT HIGHLIGHTS

Finance
S&P's A- rating is testimony to the Association's strong capital adequacy and financial flexibility.

Supplementary Calls
2000 marks the tenth consecutive year of achieving original call estimates.

Membership
Record entry of 35 million gt.

Underwriting and Claims
Steady performance with small financial year deficit of US$4.2 million.

Reinsurance
The Association's multi-year programme provides continued stability.

Service
Investment in business-knowledge systems will enhance the Association's service quality.

Quality
The Association is committed to attaining quality standards in all aspects of its operations.

2001 P&I FINANCIAL SUMMARY

S&P Rating	A–	
Free Reserves	$ 78.9	million
Gross Premium	$ 92.5	million
Net Assets	$321.1	million
Total Net Outstanding Claims	$242.4	million
Average Expense Ratio	8.4	%

Peter Henderson

CHAIRMAN'S STATEMENT

I took over the chairmanship from my predecessor Spyros Polemis in June last year, with no preconceptions of whether the Club could sustain its impressive five-year track record of growth and year-on-year improvement in all-round financial performance and strength.

Global insurance trading conditions, including P&I, have been difficult and were certainly not conducive to sustainable growth. Soft rates and rising claims costs had all the hallmarks of a testing year for the clubs. However, the 'feel-good' factor surrounding North of England has contributed significantly to the brisk level of business activity throughout the year and particularly at the 20 February 2001 renewal.

Tonnage has grown by over five million gt to an unprecedented membership level of 35 million gt. However, this growth is just a small percentage of total business inquiries: for quality, price or other reasons the majority of these were declined. Nevertheless, this surge in inquires reflects not only organic growth but the industry's confidence in the Club and a positive change in many quarters in the perception of North of England and the quality it represents.

Understandably the Club's recent growth may have raised concerns about expanding too quickly, but the continued solidity of this year's results vindicate the Club's strategy to achieve greater critical mass without compromising its conservative management values. The financial year deficit of US$4.183 million does not detract from the sound fundamentals of the business. Analysed in the macro context of soft rates, aggressive competition and turmoil in the financial markets, North of England's steady performance stands out against its peers.

The Club's 'safe-hands' reputation and astute financial management has raised its profile and opened the door to many new business opportunities. Credit for this must be given to the managers, who have demonstrated unswerving energy and commitment in driving the Club forward. The motivation has been none other than achieving a common goal of both managers and the Association in creating a club for the 21st century.

The alignment of Club and management interests has hitherto never been questioned and should not be the subject of speculation now that the Board has approved the creation of a wholly owned management company. North Insurance Management Limited is intended to foster and establish a more flexible career structure, which the Board recognises as essential to encouraging lateral ideas and to maintaining the vibrancy and dedication amongst the managers and staff.

Prior to the 2001 renewal the Club's stature was boosted further by Standard & Poor's accreditation of an interactive A- rating, signifying very strong financial security and prudent management control. S&P's rigorous audit process, involving an exhaustive analysis of the Club's strategic aims, operating performance and capitalisation, provided a transparent insight into the Club's business affairs and financial strength. The rating agency's acknowledgement of the Club's strong capital adequacy – the most critical test of the rating process – is testimony to North of England's strong risk-based capitalisation, comprehensive reinsurance programme and conservative reserving policy.

The market environment is also an important factor assessed by S&P. The agency is only too aware that rates are proving both uneconomic and unsustainable across the P&I industry. With claims trends firming, reinsurance markets tightening and investment returns more uncertain, it's no surprise that S&P predicts that some clubs will feel the squeeze. The 2000 policy year results in particular will highlight the vulnerability of clubs to over-dependency on investment returns to fund underwriting deficits. North of England's Board shares this concern and continues to believe that unless corrective measures are taken to raise premiums to realistic break-even pricing levels, the industry may increasingly face the prospect of depleted reserves, if not the unwelcome spectre of excess supplementary calls.

Despite difficult market conditions, I am pleased to say that the 'safe hands' approach which I mentioned characterises North of England's management style, has avoided the risk of eroding its capital base or jeopardising its ten-year unblemished record of stable calls. Specifically the Board considered it prudent to seek a general increase at the 2001 renewal. The negative development of the 2000 policy year, in which the Club experienced increases in both the number and cost of claims (including 13 claims in excess of US$1 million), is expected to improve as the policy year matures and eventually close within forecast estimates.

As for the status of the 1999 and 1998 open policy years (commented upon in the underwriting and claims section of this report), I am pleased to say these years continue to develop satisfactorily and are expected to close within current forecasts. At the October board meeting it was decided to close the 1997 policy year, an abnormal year in terms of claims experienced, within budget.

Though the 2000 year has once again reinforced the strength of the mutual system and the benefit of the International Group pooling arrangements, there can be no room for complacency. The Group's integrity depends on its ability to adapt to change. New products, commercial alliances and virtual fixed-cost cover are welcome innovations that demonstrate the Group's ability to be progressive and responsive to its ship-operating members and to withstand the threat from the commercial market.

By the same token the clubs are intensifying competition amongst themselves. This in itself is healthy, but accommodating an increasing pan-marine dimension to a traditional single-product line industry will pose a serious challenge. Increasing market share for the sake of realising notional independent strength needs to be balanced with maintaining the economic unity and strength that binds the International Group.

Whatever the future, and I have no doubt the International Group will overcome its adjustment pains, your Board is confident about the Club's strategic course: firmer pricing of risk on line, greater emphasis on delivering value-for-money and continued, controlled growth. The past 12 months have demonstrated that the Club truly has the credentials to flourish in the new century and in the new era of P&I.

Finally, and of great importance, the Club depends to a very great extent upon its people – both management and staff. We have an outstanding team at North of England and I should like to thank each and every one of them for their contribution. Without this the Club would not have the excellent reputation that it has today. My thanks to them and my thanks to my colleagues on the Board, who give freely of their time and of their experience to the benefit of the Club.

Peter Henderson
Chairman
August 2001

MANAGEMENT OVERVIEW

The Club opened the 2000 policy year with a major boost from transferring Liverpool & London Club members and signed off twelve months later with an air of cautious optimism. At the February 2000 renewal, the Club's membership had grown to 30.4 million gt; post renewal on February 2001 it increased to 35 million gt – real evidence of the Club's growing credibility as a stable, secure and service-orientated mutual insurer in a volatile market.

To overcome a difficult market period, the managers' first priority was to implement a strategic review of the Club's future development and the formation of a wholly owned management company called North Insurance Management Limited. The company has been created solely to improve career opportunities for staff, something which the directors felt was essential to creating a stable and vibrant management environment while keeping the interests of the Club and its managers aligned.

The Club's five year growth of 70% was the dominant feature of the review. Whilst market conditions over the past 12 months have not always been ideal, further growth could run the perceived risk of overheating. On the other hand any business which stands out in a competitive environment for its product success – service, financial performance, security and stability – will want to maintain its momentum. A balance has to be struck between consolidation and exploiting growth opportunities.

The strategic review also determined that achieving a more accurate Standard & Poor's rating was an important objective. In previous years the Club's financial strength and performance had been evaluated by S&P on the basis of its published audited accounts, which provided more of a snapshot rather than a detailed picture. The managers thus invited S&P to undertake an interactive rating assessment – a rigorous audit process that looks at a series of critical rating factors not necessarily discernable or quantifiable from the published accounts. It focuses on the Club's business and how its operational and financial strategies affect its financial strengths.

S&P upgraded the Club to A- status, signifying very strong financial flexibility, strong capital adequacy, good business position and overall sound underwriting management. In S&P's judgement, the Club's strong capital adequacy is based on its very strong risk-based capitalisation, comprehensive reinsurance programme, and very conservative reserving practice.

Despite the difficult market conditions for all P&I clubs with the continued pressure on rates, weak investment markets and a general increase in claim costs, this year's results bear out S&P's positive assessment of the Club's financial performance. The Club's overall free reserve at 20 February 2001 was US$84.7 million, a fall of less than 5% from US$88.9 million at 20 February 2000. The P&I class free reserve at 20 February 2001 was US$78.9 million.

Last year's claims environment, in which the Club experienced increased claims across all values – not least 13 claims in excess of US$1 million – appears to be symptomatic of an industry trend towards costlier claims and expenses. The claims effect negated the impact of increased premium levels, but a disciplined break-even policy has at least contained the underwriting deficit of US$18.6 million to a modest level. Although it is expected claims will follow the usual pattern of development – deteriorating for 20 months – the managers are confident of an improvement as the year develops to maturity. Anticipating a continuing trend of higher levels and cost of claims, the 10% general increase imposed at the February 2001 renewal reflected the managers' determination to maintain a realistic pricing of risks.

As noted in the claims section of this report, preceding open and closed policy years are improving in line with forecast expectations.

A small increase to 8.4% from 7.7% in the Club's average expense ratio can be attributed to weak investment markets, conservative provision for doubtful debts and merger-related costs not anticipated to impact in future financial years. The Club's cost base continues to be extremely competitive while providing members with very high levels of service.

Looking ahead, the managers are optimistic about the Club's growth and development prospects and feel it is ideally placed to capitalise on its achievements over the past five years. In tonnage terms and financial strength, North of England now ranks as a middle order Club with its sights firmly fixed on exploiting new growth opportunities. It is already one of the leading clubs in several regions, notably the Middle East, India and Greece. Expanding into new markets and increasing marketing efforts in the Far East and USA will be at the forefront of the Club's future strategy.

Though not welcomed by members, hardening rates will restore a degree of competitive equilibrium to the P&I market. Price will no longer figure as the dominant selling proposition but a basket of differentiating factors, not least being operating performance and its correlation with long-term call stability.

Depending on the size of their investment cushion, some clubs will adapt easier than others to the changes in the trading environment, which is expected to experience significant industry-wide rate increases. However, the emphasis on achieving positive underwriting results will not be a major transition for North of England members. The underlying fundamentals – prudent rating, conservative reserving and risk adverse underwriting philosophy – will continue to provide a stable cushion.

An emphasis on value creation is likely to be the topical market theme over the next two or three years. Service levels, coverage, product innovation and communication will be critical to the process of developing a value proposition that sustains member loyalty and satisfaction. Creating an organisation that has a true member-orientated corporate culture is a quality that can only be instilled over time and eventually dictates the policies and practises characteristic of the organisation. North of England knows this only too well. Its motivated and dedicated staff and management team are at the core of the Club's operations which is singularly focused on maximising the relationship potential with its membership.

MEMBERSHIP

At the 2000 renewal entered P&I tonnage in North of England was 30.4 million gt, of which 25.7 million gt was mutual and represented 343 members. Since then the combined owned and charterers' P&I entry has increased to 35 million gt, representing 395 members. At over 2297 ships, this represents a record P&I entry for the Club.

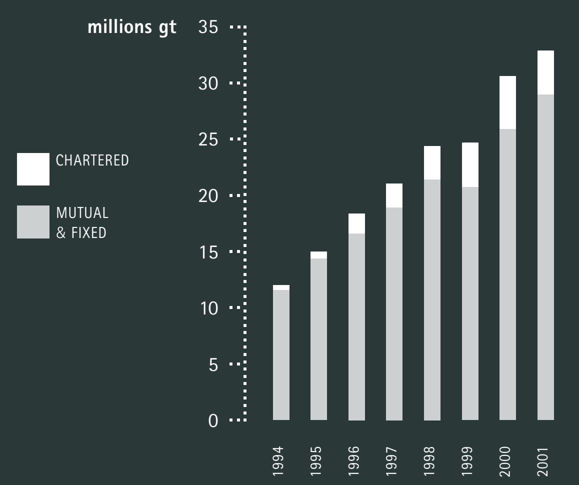
Over the last five years North of England's P&I entry has increased by 70%. Apart from the transferring Liverpool & London Club tonnage, organic growth has been the main source of additional entries. Nevertheless 31 new members joined the Club at this year's renewal, reflecting its continued attractiveness as a stable, secure and service-orientated mutual in a volatile market.

Despite the increasing size of the P&I entry, the composition of tonnage has remained relatively consistent, reflecting the Club's aim to minimise its dependence or exposure to any one type of trade. Bulk carriers, averaging 14.8 years old, account for 47% and tankers account for 24.2%. The average vessel entry size is 15,500 gt.

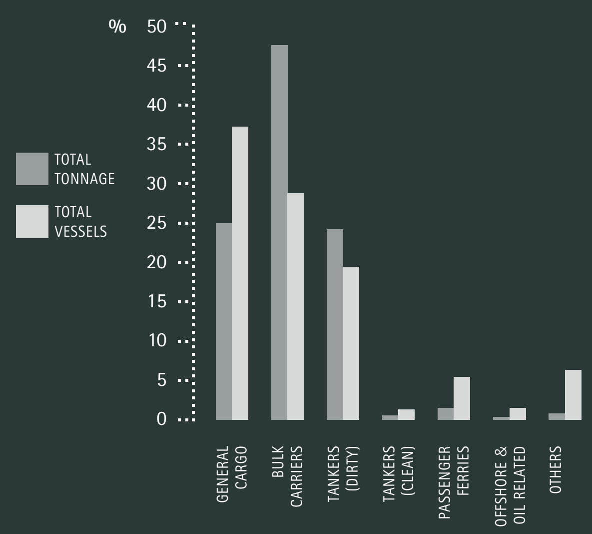
Condition surveys are an integral feature of the Club's risk-management programme. During the past year the survey department conducted over 200 surveys. Defect warranties were imposed on 15 ships for unacceptable risk deficiencies, most commonly for cargoworthiness, particularly hatchcover problems.

The Club has continued its policy of maintaining a geographical spread of business. Although it remains dominant in Europe, North of England now has the largest club membership in the Middle East and an expanding portfolio in the Far East and India.

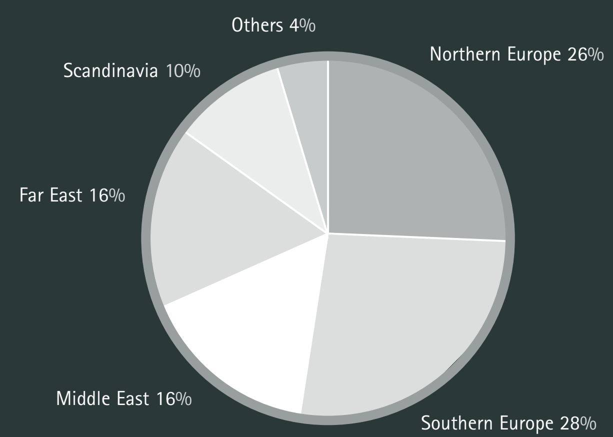
During 2001 the managers intend to focus their marketing efforts in attracting additional high quality members in these regions as well as expanding the Club's presence in Scandinavia, and the USA.



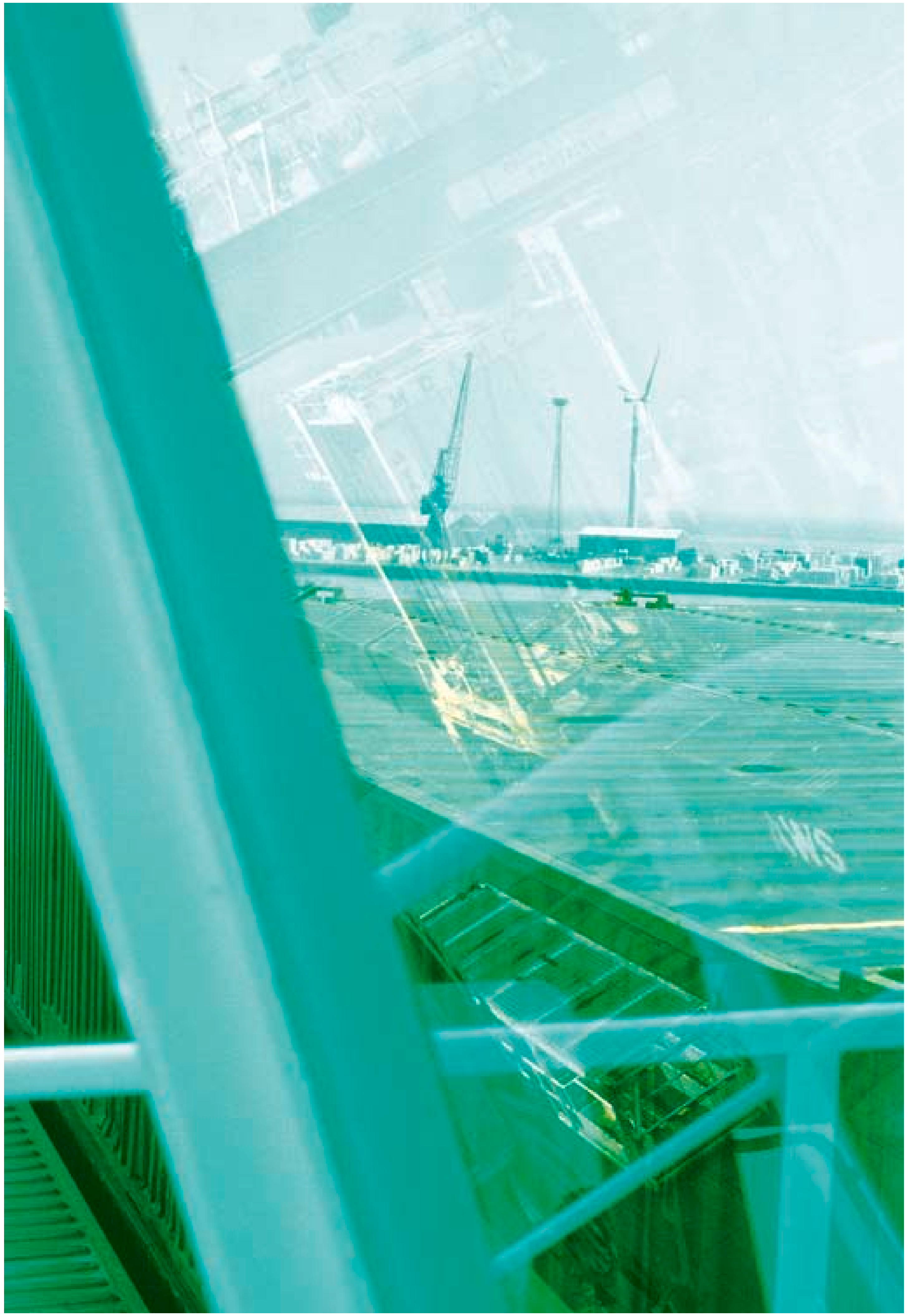
ENTERED TOTAL TONNAGE



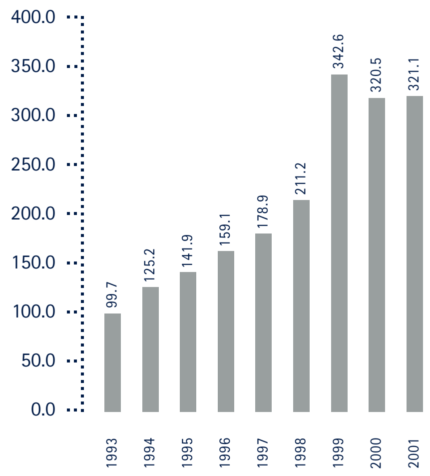
ENTERED TONNAGE
(BY SHIP TYPE)



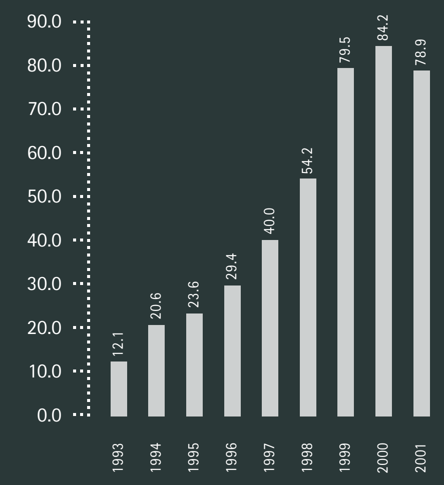
ENTERED TONNAGE
(BY AREA OF MANAGEMENT)



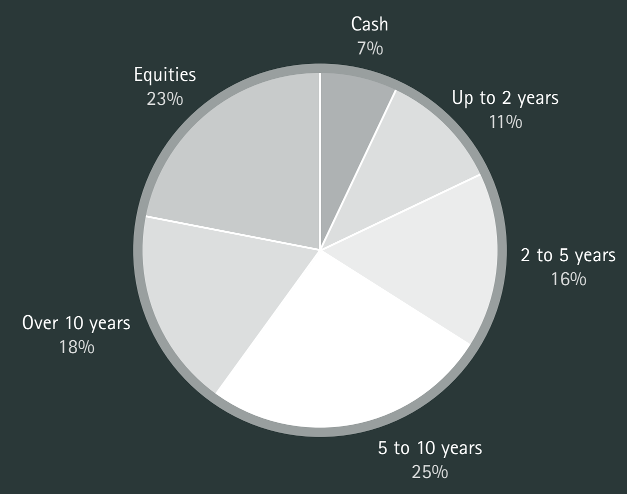
FINANCIAL REVIEW



P&I CLASS NET ASSETS
(US$MILLIONS)



P&I CLASS FREE RESERVES
(US$MILLIONS)



INVESTMENT PORTFOLIO

The defensive position of the Club's investment portfolio – which produced disappointing returns in 1999/00 - proved to be an astute decision for the 2000/01 financial year. Over-valued equity markets fell significantly on several occasions during the 12-month period. The Club investment philosophy has always been one of capital preservation and the managers' concerns over market volatility proved to be justified.

The return on P&I class investments for the financial year was 4.33%, outperforming the composite benchmark index of 3.87% by some 12%. The result represents good performance within the P&I industry, where negative returns for the financial year were common. It puts North of England in the upper quartile of P&I Club investment performance for the period.

Equities

The rise and subsequent fall during 2000 of 'tech', telecoms and media stock dominated world equity markets and is well documented. The US Federal Reserve warning over 'irrational exuberance' appears with hindsight to have been a little understated.

North of England was not immune to market volatility but its exposure was limited by being underweight in this asset class. The introduction of two new equity-based balanced fund managers in April 2000 coincided with the first significant fall in world equity markets.

However, overall performance was satisfactory with the balanced funds outperforming their benchmark index.

Fixed Income

Bonds, the backbone of North of England's investment strategy, performed extremely well in the 2000/01 financial year. During the first nine months it was difficult to predict the final returns for the portfolios. Up until November, bond returns were close to 5%, whereas overall returns for the year were expected to be around 7%.

The US economy was starting to slow, the bond price of energy was rising, and real bond yields had fallen to historically low and unattractive levels. What transpired surprised economists, investors and indeed the world's pre-eminent central banker, Alan Greenspan, chairman of the US Federal Reserve. In short, the US economy ground to a halt in the final quarter of 2000, interest rates were slashed and NASDAQ – manifestation of new wealth and consumer confidence in the US – fell 50% from September to the end of February.

Reaction in global bond markets bore no reflection to their intrinsic value, rather they offered a safe haven from the storm as equity investors panicked and the Fed repeatedly cut rates to try to stave off recession. The link between the falling NASDAQ and crumbling US consumer confidence numbers clearly showed what had been making US consumers feel so confident about running down savings and increasing spending when the economy was booming.

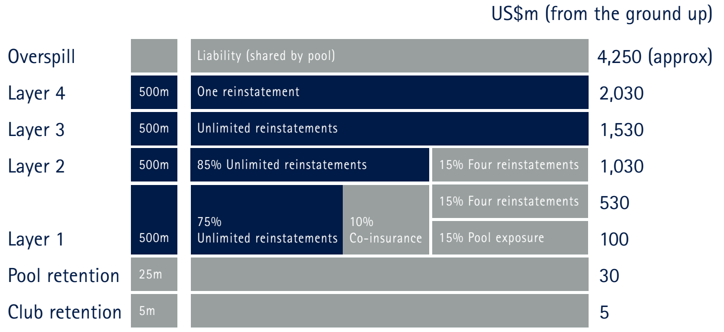
Mixed performance by investment managers in bonds produced an actual return of 9.3% against a benchmark index return of 9.68%.

Future Strategy

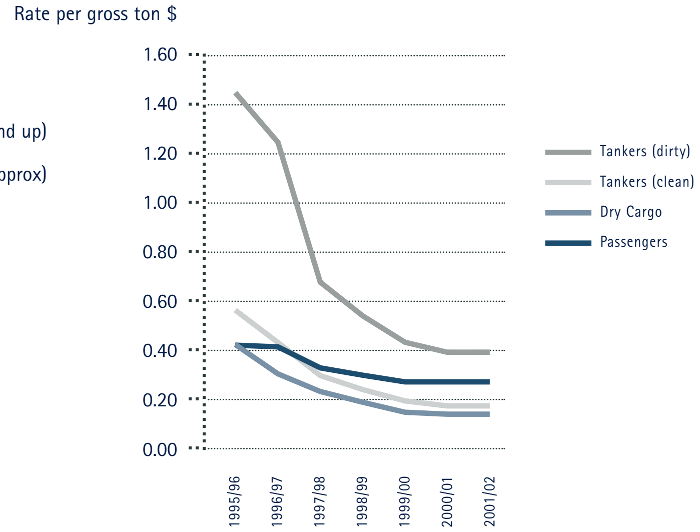
The Club's annualised five-year investment return of 7.36% represents a solid performance record during a period of unprecedented volatility. It places North of England in the upper quartile of P&I Club investment results for the period.

As reported last year, following an extensive review of the liability structure of the Club, the medium-term investment strategy is to increase exposure to equities to 30% of the portfolio value with the balance of the fund in predominantly AAA- and AA- rated bonds and cash. Equity investment represented only 23% of the portfolio value at 20 February 2001.

Safeguards built into the guidelines for investment managers allow for some departure from benchmark asset-allocation weighting to allow them to take defensive or aggressive positions, depending on their view of the global economy and investment markets.



INTERNATIONAL GROUP REINSURANCE STRUCTURE



INTERNATIONAL GROUP EXCESS LOSS REINSURANCE RATES

REINSURANCE

The Club's reinsurance programme 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. 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 2001. The combined figures form the basis of the return to the UK Financial Services Authority.

The International Group's excess-of-loss reinsurance contract, covering claims above the Group pool limit of US$30 million, was renewed at 20 February 2000 on the back of a continuing good loss record and favourable reinsurance market conditions. The main features of the renewal were an overall reduction in premium, increased limit of cover on pollution from US$500 million to US$1billion and terms held for two years.

The Group programme is structured in four layers of US$500 million from US$30 million to just over US$2 billion. In the first layer, the pool retains 25% of all claims between US$30 million and US$100 million and 10% of claims between US$100 million and US$530 million.

Any claim in excess of the US$2.03 billion limit will be covered by an overspill call up to an overall limit of approximately US$4.25 billion each claim. Members' exposure for the first US$1 billion of an overspill claim is protected by additional reinsurance.

Separate excess-of-loss and stop-loss reinsurances, which limit the Club's exposure to the aggregation of losses not otherwise protected by excess-of-loss reinsurance, are also placed to protect its US$5 million retention under the Group pool. This arrangement also protects the Club's share of pool contributions.

P&I CLAIMS AND UNDERWRITING

2000 policy year

Taking into account the tonnage growth, the 2000 policy year displays minimal variance from previous years in the number of claims reported and the claims cost per tonne, though the number of mid-value cargo claims seems to have increased. However, the claims experience indicates an upward trend in the value of claims, probably because of the correlation with increased trading activity and claimants' awareness and readiness to litigate, often in difficult jurisdictions. Underlying this is the pressure on crews to meet deadlines and work ships harder.

Specifically, the Association recorded 13 claims with estimates exceeding US$1 million. The two largest of these were extraordinary incidents involving a difficult wreck removal of a general cargo ship and the well-publicised salvage and subsequent port of refuge drama of a laden gasoline tanker. Three other claims involved death or injury claims in jurisdictions where the outcome of litigation is uncertain. Two large container loss incidents caused by extreme weather conditions – including a typhoon – and cautious reserving against the risk of certain jurisdictions denying legitimate contractual defences, contributed to the aberrant cycle of large cargo claims.

The consequent level of claims costs produced a deficit of $18.6 million as at 12 months from the policy year inception. Nevertheless it is expected that claims will follow the usual pattern of maturity, with deterioration to the 20-month development point followed by improvements. Assuming reasonable investment returns, a manageable deficit is forecast in the medium term and, subject to the Board's annual policy year review in October 2001, the balance of the estimated total call, equivalent to 25% of the advance call, remains unchanged. The release fee remains at 25%.

1999 policy year

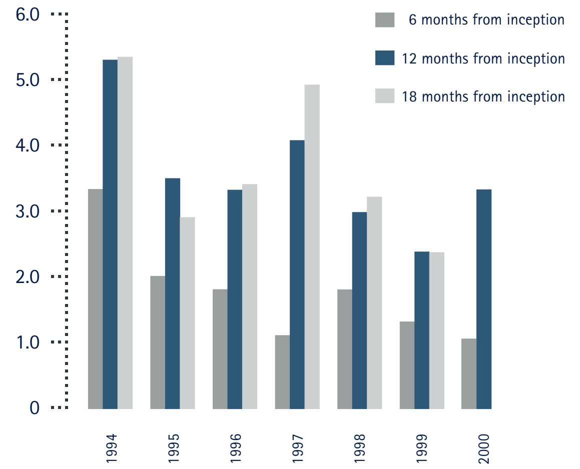
As expected, the financial position on the 1999 policy year weakened by US$3.3 million to a deficit of US$13.8 million 24 months from inception. The deterioration is in line with the Club's financial modelling from which the year is expected to mature within budget. The release fee is set at 10%.

1998 policy year

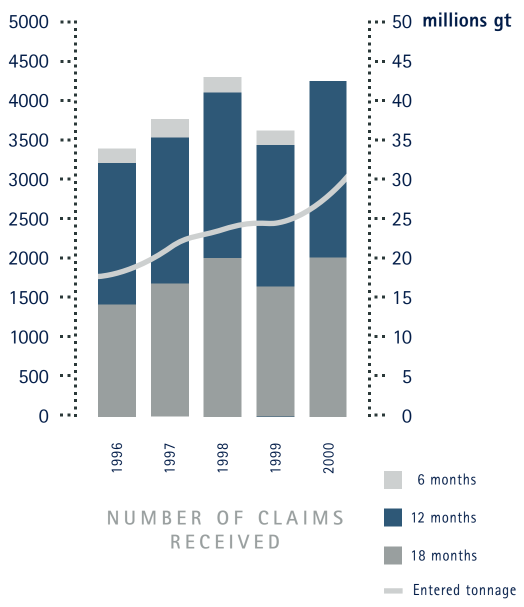
The result for the year has improved by US$5.7 million to show a surplus of US$15.8 million 36 months from inception. With claims development showing its usual pattern of improvement, net claims improved by US$1.6 million. Allocated investment income of US$4.1 million also contributed to the overall improvement. The year is expected to be closed without an additional call. The release is currently set at 5%.

	1996	1997	1998	1999	2000
Over $2.0m	2	9	4	3	10
$1.0m - $2.0m	6	2	3	3	3
$0.5m - $1.0m	11	16	15	20	15
$0 - $0.5m	3,150	3,464	4,076	3,423	4,218
Total	3,169	3,491	4,098	3,449	4,246

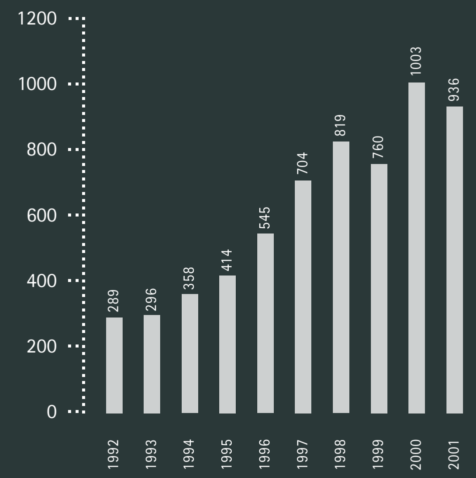
P&I ONLY: NUMBER OF CLAIMS BY VALUE RANGE



INCURRED CLAIMS PER US$/GT



NUMBER OF CLAIMS RECEIVED



AVERAGE NUMBER OF SHIPS
INSURED FOR FD&D

FD&D CLASS

FD&D CLASS

A buoyant freight market, as was the case for most trades during the 2000 policy year, historically generates fewer disputes, but against this trend the North of England's FD&D class experienced an increase in claims from the previous year from 632 to 759 – though this was proportionally less than the increase in vessels entered in the class. In addition, the defence team handled over 1,200 requests for assistance from members seeking to avoid otherwise potentially costly and time-consuming disputes.

Predictably, most claims referred to the Association for support during the 2000 policy year related to charterparty disputes involving charterers or sub-charterers breaching their obligations. Improved freight markets meant there were fewer disputes arising out of chartering failures. Collapse of two substantial commodity-trading companies proved the exception, though the Club had only two members with outstanding claims against these companies.

A series of unjustified arrests against a member's vessel in France, causing significant delay to the vessel and subsequent cancellation of a charterparty, was the most significant claim last year in terms of expense and resources. The arrests were set aside by the Local Tribunale du Commerce, but the disputed arrests are subject to further appeals. Further actions filed against members' vessels were subsequently set aside.

Stevedore negligence in mishandling vessel cranes is another source of perennial dispute with charterers. Such disputes are often difficult to resolve as, in many cases, the individuals at fault are unwilling to admit their responsibility and charterers, in turn, are not anxious to indemnify owners for damage caused.

Disputes with shipyards and repair yards, though fortunately not in relation to newbuilding and conversion contracts, are becoming more prevalent. Newbuilding disputes can be particularly expensive to resolve, involving the time-consuming taking of detailed factual evidence from witnesses as well as expert evidence from independent technical experts to assess the merits and evidence in support of the member's position. Another Group Club recently incurred costs of over US$17 million in supporting an action against a shipyard, illustrating the huge financial stakes involved.

There was no change to the Club's in-house legal resources during the 2000 policy year apart from the transfer of Mike Salthouse from the Newcastle head office to establish the Piraeus office. The 16-strong team of multi-jurisdictional lawyers continues to create 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.

MEMBER RELATIONS

Service

The success of the Club's relations with its members is founded on a policy of membership visits, seminars, forums and personal contact. Last year the regional underwriting and claim's team visits were complemented by a series of informative external seminars and in-house workshops in various shipping centres including Dubai, Singapore, Istanbul, Hong Kong and Guangzhou. These covered topical industry and loss-prevention issues. The FD&D sale-and-purchase roadshow seminars in Glasgow, Copenhagen, Athens, Monaco and London were also well-attended and provided an ideal platform for the Club to promote its lien insurance cover.

Business-support systems are playing an increasingly important link in the service chain. In a world where online banking services have mushroomed, transactional websites offer instant insurance cover and businesses of all kinds are looking seriously at the benefits of business-to-business applications of web technology, the quality of the club's infrastructure will have a direct bearing on its future competitiveness. The tangible dimensions of club service – claims handling, advice, underwriting and payments – depend upon an IT-driven infrastructure supporting the club's business systems, communications and data management. In recognition of this the directors have approved an information systems blueprint that provides extranet access to underwriting and claims information together with on-line financial modelling and benchmarking. The system is expected to come on stream within the near future.

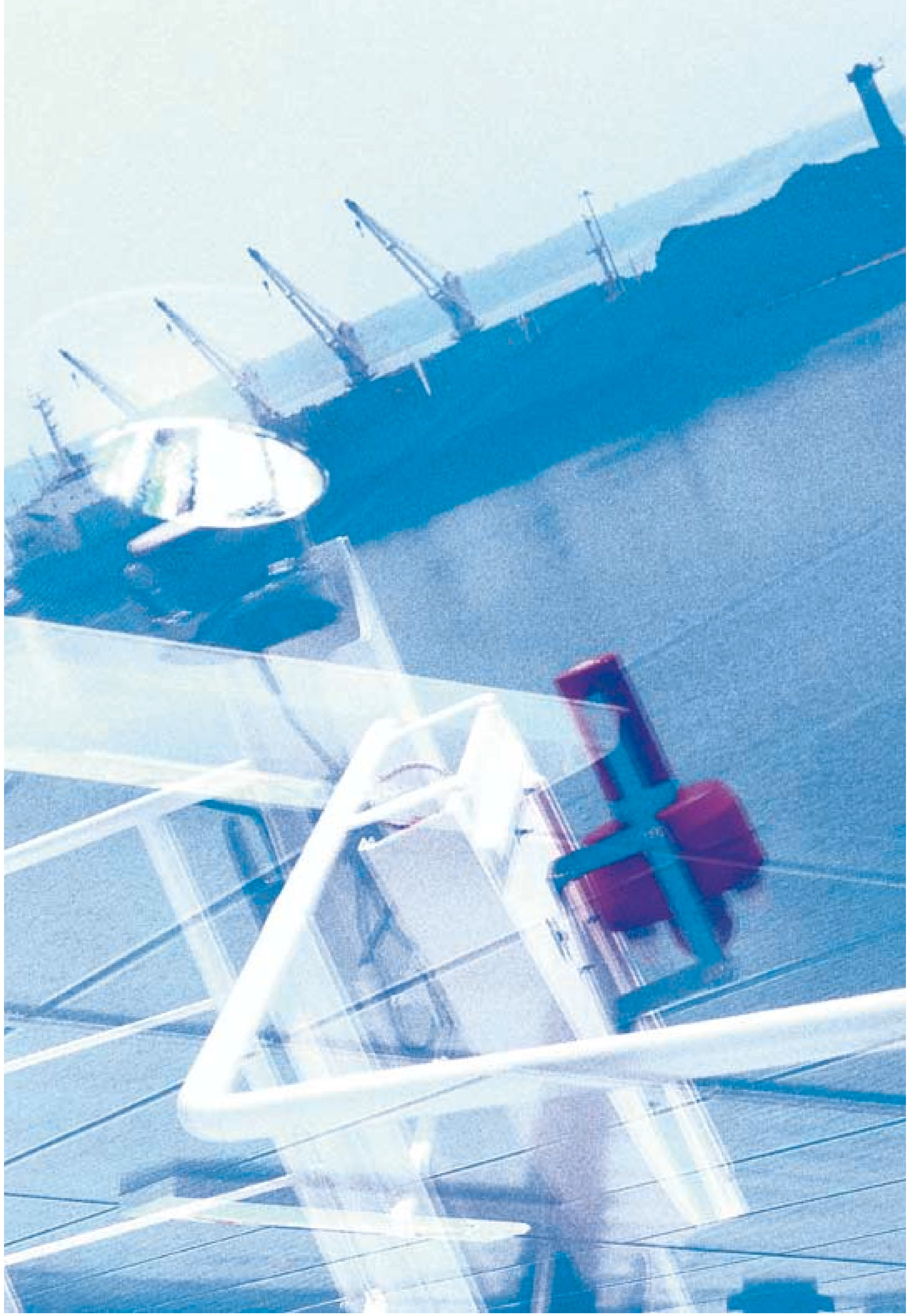
Loss Prevention

North of England continues to lead the market in providing a comprehensive range of books, posters, guides and training courses for its members to utilise within their own loss prevention programme.

The quarterly loss-prevention newsletter *Signals* was complemented with illustrative case studies called *Signals Experiences* as well as humorous posters in the *MAST* (management and safety training) series and a new series focusing on the collision regulations. Special editions of *Signals* covered topics as wide-ranging as personal injuries, stowaways and safe navigation. Two further additions were made to the library of loss-prevention guide books with volumes covering bunker claims prevention and port state control. Seminars, conferences and training courses were run around the world, ranging from intensive five-day programmes to more focused and personalised one-day workshops in members' offices.

The Club's loss-prevention activities continue to be recognised by outside bodies in many ways. Of specific mention last year was a further certificate of excellence being awarded by the Seatrade Academy for the Club's personal injury prevention programme with its loss prevention guidebook, posters, checklists and videos. The University of Northumbria at Newcastle also gave formal recognition to the distance learning course in P&I insurance and loss prevention which the Club has run jointly with South Tyneside College for the last twelve years. A student who has successfully completed the distance learning course is now entitled to direct entry into the university's post-graduate courses in international trade law with exemptions from part of the core module.

A new, updated, brochure and pack describing the substantial range of loss-prevention material and training programmes which the club makes available to members to assist with their own loss-prevention programmes has also been produced and distributed.



INDUSTRY DEVELOPMENTS

Bunker Convention

During the past year IMO has agreed but not yet ratified a new convention for a strict liability compensation scheme for bunker spills. As expected the main features of the convention incorporated the following points:

- Strict liability for pollution damage caused by bunker oil on board or originating from a ship, though there are some limited defences which mirror those of the Civil Liability Convention (CLC).
- Exclusion of pollution damage as defined in the CLC, so the new convention would not apply to damage for bunkers on a tanker in circumstances where the CLC applies to that tanker.
- Preservation of shipowners' rights to limit their liability in accordance with the 1976 Limitation Convention. There are no separate limits of liability established by the new convention.
- Unlike the CLC, there is no accompanying Fund Convention and liability will be borne solely by the shipowner with no contribution from other parties, unless they are liable in damages to shipowners by reason of their acts or omissions.
- Registered owners of ships of greater than 1000 gt are required to maintain insurance to cover liabilities up to the limit of their liability under the 1976 Limitation Convention. This will inevitably mean the issue of certificates equivalent to the CLC certificates currently required in respect of tankers.

Some states, such as Australia, are already taking unilateral action to ensure that vessels entering their waters have adequate insurance coverage for pollution liabilities. The Australian authorities have agreed to accept certificates of entry as adequate evidence of coverage.

European Pollution Fund

Since the *Erika* pollution incident off the French coast in December 1999, the risk of far-reaching unilateral changes to European environmental laws and threat to the workings of the CLC and Oil Pollution Compensation Fund (IOPCF) remains.

The European Commission is pressing to introduce a European compensation fund (the COPE fund) to pay claims in Europe which exceed the limit of the IOPCF. IMO, supported by the International Group, is seeking an international solution through changes to the conventions. This view is also held by some of the member states of the European Union.

At present the Commission seems prepared to await the outcome of the latest round of discussions and developments within IMO. However, there are indications that if no significant progress is made, there will be renewed pressure for a European convention. IMO, in deference to concerns of compensation levels, initially proposed increasing compensation limits by approximately 50%.

However, most states still believe that this is insufficient. Now IMO is considering an additional third tier of compensation, similar to the proposed COPE fund but adopted by all states.

To overcome legal and funding issues, the International Group has advocated a voluntary optional third tier of compensation funded by the oil industry should be available but, where the option is exercised, the minimum limit of liability for shipowners should be increased with a view to maintaining the balance of sharing. This proposal, which was made at the latest meeting of the IOPCF third inter-sessional working group in June this year, appears to have been well received. In order to achieve a further increase in the limits, a further protocol to the CLC and Fund conventions would have to be agreed.

The member clubs of the International Group are firmly of the view that regulation of pollution by international convention is the most appropriate system, hence the voluntary proposals. The pollution sub-committee of the International Group is now working on more detailed proposals for the voluntary agreement to be put to the next meeting of the IOPCF working group in October.

US and other developments

In the US there have been few recent developments although the State of Alaska is now working to introduce state legislation similar to that introduced in California at the beginning of 2000 requiring non-tank vessels to have vessel-response plans and state certificates of financial responsibility. It is anticipated that these regulations will be finalised later this year.

Taiwan is working on draft legislation which appears to be in similar terms to the US Oil Pollution Act 1990 (OPA 90). The International Group will be monitoring the position carefully and is likely to make representations to the Taiwanese authorities as appropriate.

The Hazardous and Noxious Substances Convention, the text of which was agreed in 1996, is currently no further towards coming into force with only one state having ratified the convention at this time. However, there appears to be renewed pressure for states to deal with the issue so as to bring it into force as soon as possible.

Passengers

The Protocol to the 1974 Athens Convention continues to be a political hotbed within IMO. A new compensation agreement and compulsory insurance has been taxing the IMO members without producing any consensus on whether to agree higher limits per se or impose strict and higher limits backed by certificates of financial responsibility. As reported last year, if the minimum general cover limits are accepted, it will raise some fundamental coverage issues for the cruise industry.

COMBINED FINANCIAL STATEMENTS

CONTENTS

The North of England P&I Association Limited's financial statements for the year ended 20 February 2001 are enclosed as a separate document and North of England Mutual Insurance Association (Bermuda) Limited's financial statements for the same period will be issued to Members on behalf of the Managers of that company. Financial statements which combine the results and financial position of the UK and Bermuda Associations follow on pages 24 to 37 and have been prepared to allow Members to gain a picture of the overall position. The statements have been prepared for illustrative purposes only and have no legal standing. The return to the Financial Services Authority is based on the combined position.

Any reference to the Club in the preceding narrative relates to the combined position of the UK and Bermuda Associations which have common membership but do not have common control.

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 on the consolidated statutory accounts of the Association was issued by Arthur Andersen and the auditors' report on the statutory accounts of 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 accounting policies adopted in preparing the combined accounts.

Arthur Andersen

Chartered Accountants

Newcastle upon Tyne

29 June 2001

COMBINED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 20 FEBRUARY 2001

	Notes	TOTAL 2001 US$000's	TOTAL 2000 US$000's	Protecting & Indemnity Class 2001 US$000's	Protecting & Indemnity Class 2000 US$000's	Freight, Demurrage & Defence Class 2001 US$000's	Freight, Demurrage & Defence Class 2000 US$000's	War Risks Class 2001 US$000's	War Risks Class 2000 US$000's
TECHNICAL ACCOUNT – GENERAL BUSINESS									
Gross premiums written	2	100,335	88,403	92,460	81,974	7,864	6,429	11	–
Outward reinsurance premiums	3	(16,827)	(16,776)	(16,193)	(16,111)	(536)	(558)	(98)	(107)
		83,508	71,627	76,267	65,863	7,328	5,871	(87)	(107)
Allocated investment return transferred from the non-technical account		16,541	1,967	15,257	2,205	1,621	(174)	(337)	(64)
Losses on exchange		(4,824)	(3,160)	(4,465)	(2,983)	(219)	(144)	(140)	(33)
Total technical income		95,225	70,434	87,059	65,085	8,730	5,553	(564)	(204)
Claims paid									
Gross amount	4	(100,255)	(88,370)	(96,796)	(84,734)	(3,453)	(3,636)	(6)	–
Reinsurers' share		22,432	7,286	22,432	7,286	–	–	–	–
		(77,823)	(81,084)	(74,364)	(77,448)	(3,453)	(3,636)	–	–
Change in the provision for claims									
Gross amount	5	(13,235)	25,734	(12,781)	24,897	(454)	837	–	–
Reinsurers' share		4,892	268	6,064	2,047	(1,172)	(1,779)	–	–
		(8,343)	26,002	(6,717)	26,944	(1,626)	(942)	–	–
Net operating expenses	6	(12,572)	(11,418)	(10,666)	(9,899)	(1,801)	(1,418)	(105)	(101)
Total expenditure		(98,738)	(66,500)	(91,747)	(60,403)	(6,880)	(5,996)	(111)	(101)
Balance on the technical account for general business		(3,513)	3,934	(4,688)	4,682	1,850	(443)	(675)	(305)
NON-TECHNICAL ACCOUNT									
Balance on the general business technical account		(3,513)	3,934	(4,688)	4,682	1,850	(443)	(675)	(305)
Investment income	7	32,038	11,057	30,712	10,790	1,018	263	308	4
Unrealised (losses)/gains on investments		(14,396)	(8,277)	(14,415)	(7,804)	657	(405)	(638)	(68)
Investment expenses and charges		(1,101)	(813)	(1,040)	(781)	(54)	(32)	(7)	–
		16,541	1,967	15,257	2,205	1,621	(174)	(337)	(64)
Allocated investment return transferred to the general business technical account		(16,541)	(1,967)	(15,257)	(2,205)	(1,621)	174	337	64
(Deficit)/Surplus on ordinary activities before tax		(3,513)	3,934	(4,688)	4,682	1,850	(443)	(675)	(305)
Tax on ordinary activities	8	(670)	58	(613)	55	(75)	2	18	1
(Deficit)/Surplus for the financial year		(4,183)	3,992	(5,301)	4,737	1,775	(441)	(657)	(304)
Transfer to Contingency fund	10	(20,526)	(10,324)	(19,950)	(9,379)	(576)	(945)	–	–
Transfer (from)/to Income and Expenditure reserve		(24,709)	(6,332)	(25,251)	(4,642)	1,199	(1,386)	(657)	(304)
Income and Expenditure reserve brought forward		3,446	9,778	2,949	7,591	(3,853)	(2,467)	4,350	4,654
Income and Expenditure reserve carried forward		(21,263)	3,446	(22,302)	2,949	(2,654)	(3,853)	3,693	4,350

COMBINED BALANCE SHEET

AT 20 FEBRUARY 2001

	Notes	TOTAL 2001 US$000's	TOTAL 2000 US$000's	Protecting & Indemnity Class 2001 US$000's	Protecting & Indemnity Class 2000 US$000's	Freight, Demurrage & Defence Class 2001 US$000's	Freight, Demurrage & Defence Class 2000 US$000's	War Risks Class 2001 US$000's	War Risks Class 2000 US$000's
ASSETS									
Investments									
Land and buildings		6,356	7,027	6,356	7,027	–	–	–	–
Other financial investments	9	297,197	284,282	277,092	269,454	16,510	10,483	3,595	4,345
		303,553	291,309	283,448	276,481	16,510	10,483	3,595	4,345
Reinsurers' share of technical provisions									
Claims outstanding		101,410	96,518	99,966	93,902	1,444	2,616	–	–
Debtors									
Estimated net product of future supplementary calls		14,797	18,637	14,797	18,637	–	–	–	–
Debtors arising out of direct insurance operations		12,165	20,096	11,297	18,575	868	1,521	–	–
Debtors arising out of reinsurance operations		6,180	11,335	6,168	11,333	12	2	–	–
Other debtors		6,546	4,349	6,490	4,407	320	–	111	7
		39,688	54,417	38,752	52,952	1,200	1,523	111	7
Other assets									
Tangible assets		1,589	1,120	1,589	1,120	–	–	–	–
Cash at bank and in hand		19,743	9,228	19,688	8,913	36	284	19	31
		21,332	10,348	21,277	10,033	36	284	19	31
Prepayments and accrued income		4,883	3,412	4,750	3,317	133	95	–	–
Total assets		470,866	456,004	448,193	436,685	19,323	15,001	3,725	4,383
LIABILITIES									
Reserves									
Income and expenditure account		(21,263)	3,446	(22,302)	2,949	(2,654)	(3,853)	3,693	4,350
Contingency fund	10	105,931	85,405	101,216	81,266	4,715	4,139	–	–
Accumulated surplus		84,668	88,851	78,914	84,215	2,061	286	3,693	4,350
Revaluation reserve		431	474	431	474	–	–	–	–
Foreign exchange reserve		(672)	–	(672)	–	–	–	–	–
		84,427	89,325	78,673	84,689	2,061	286	3,693	4,350
Technical provisions									
Claims outstanding									
Gross amount		357,404	344,169	342,393	329,612	15,011	14,557	–	–
Provision for taxation		644	(56)	644	(56)	–	–	–	–
Creditors									
Creditors arising out of direct insurance operations		3,787	791	3,784	775	3	16	–	–
Creditors arising out of reinsurance operations		8,998	11,320	8,966	11,237	-	50	32	33
Amounts owed to credit institutions		4,383	4,556	4,383	4,556	–	–	–	–
Other creditors		9,857	4,985	7,992	4,985	2,240	65	–	–
		27,025	21,652	25,125	21,553	2,243	131	32	33
Accruals and deferred income		1,366	914	1,358	887	8	27	–	–
Total liabilities		470,866	456,004	448,193	436,685	19,323	15,001	3,725	4,383

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 2001, 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 2001, 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 company's policy to maintain the building to its previous standard of performance. Consequently the Directors consider the useful life of the property to be long and the residual value high such that there is no significant annual depreciation charge. The Directors annually review the carrying value of the property for impairment and obtain an independent valuation on a triennial basis.

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.

Fixed assets held in Greece are depreciated at a rate of 20% 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. Exchange differences arising on the retranslation of accounts into US Dollars are included in the income and expenditure account, except for those arising on the retranslation of long term assets which are dealt with through reserves.

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

	2001			2000
United Kingdom	£0.692	=	US$1	(£0.626)
Germany	DM2.152	=	US$1	(DM1.985)
Japan	YEN115.530	=	US$1	(YEN110.795)

2. GROSS PREMIUMS WRITTEN

	2001 US$000's	2000 US$000's
Gross premiums charged	104,775	91,110
Change in provision for future calls	(3,840)	(1,952)
Newcastle P&I Association	(600)	(755)
	100,335	88,403

3. REINSURANCE PREMIUMS

	2001 US$000's	2000 US$000's
Market	10,962	11,423
International Group	5,767	5,246
War Risks Group	98	107
	16,827	16,776

NOTES TO THE ACCOUNTS
(CONTINUED)

4. GROSS CLAIMS PAID

	2001 US$000's	2001 US$000's
Members' claims	74,761	62,194
Newcastle P&I Association reinsurance	12,850	16,028
Other P&I Clubs' pool claims	5,041	3,969
Claims handling costs	7,603	6,179
	100,255	88,370

5. CHANGE IN THE PROVISION FOR GROSS CLAIMS

	2001 US$000's	2000 US$000's
Members	26,717	(9,336)
Newcastle P&I Association reinsurance	(13,621)	(21,581)
Pooling agreement	139	5,183
	13,235	(25,734)

6. NET OPERATING EXPENSES

	2001 US$000's	2000 US$000's
Brokerage	5,840	5,078
Acquisition costs	3,367	2,151
Administration expenses		
Gross	11,378	10,619
Merger expenses	600	776
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(1,010)	(1,027)
Claims handling costs	(7,603)	(6,179)
	3,365	4,189
Net operating expenses	12,572	11,418

The increase in acquisition costs and gross administration expenses is primarily the result of the Directors' decision to pay a once only bonus totalling US$1,464,000 (£980,000) to qualifying employees in recognition of their contribution to the surplus on the North of England pension scheme and in recognition of the substantially reduced pension costs.

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 2001. The Ratio of 8.4% (2000 – 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

	2001 US$000's	2000 US$000's
Income from listed investments	11,109	9,742
Bank and other interest receivable	1,258	1,356
Realised gains/(losses)	19,671	(41)
	32,038	11,057

8. TAX

	2001 US$000's	2000 US$000's
Corporation tax on investment income at 30% (2000 – 30%)	667	(58)
Adjustment in respect of prior years	3	–
Charge/(Credit) for the year	670	(58)

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.

	2001 US$000's	2000 US$000's
Market Value		
Shares and other variable-yield securities	69,392	49,423
Fixed income securities	225,324	193,887
Unrealised loss on forward exchange contracts	(161)	(81)
Deposits with credit institutions	2,642	41,053
	297,197	284,282
Cost		
Shares and other variable-yield securities	80,272	37,648
Fixed income securities	220,312	197,127
Deposits with credit institutions	2,642	41,053
	303,226	275,828

NOTES TO THE ACCOUNTS
(CONTINUED)

10. CONTINGENCY FUND

Protecting & Indemnity Class

	2001 US$000's	2001 US$000's	2000 US$000's	2000 US$000's
Balance at 20 February 2000		81,266		71,887
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains/losses and income	16,161		4,816	
Surplus transferred from closed policy years	4,389		5,339	
Merger costs transferred from Income and Expenditure account	(600)		(776)	
		19,950		9,379
Balance at 20 February 2001		101,216		81,266

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

Freight, Demurrage & Defence Class

	2001 US$000's	2001 US$000's	2000 US$000's	2000 US$000's
Balance at 20 February 2000		4,139		3,194
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains/losses and income	375		59	
Surplus transferred from closed policy years	201		886	
		576		945
Balance at 20 February 2001		4,715		4,139

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$8,499,265 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$172,000 (2000 – US$4,798,000).

Newcastle P&I outstanding claims in these accounts are net of recoveries from the International Group of US$14,084,603 and other third party reinsurance recoveries of US$6,542,380.

COMBINED POLICY YEAR STATEMENTS

COMBINED P&I CLASS POLICY YEAR STATEMENT

	Closed Years US$000's	1998/ 1999 US$000's	1999/ 2000 US$000's	2000/ 2001 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		63,025	56,561	–	–	–	119,586
Invoiced in Current Year		(128)	(1,056)	70,745	–	–	69,561
		62,897	55,505	70,745	–	–	189,147
Release & Supplementary		25,237	21,984	2,133	–	–	49,354
		88,134	77,489	72,878	–	–	238,501
Reinsurance Premiums		(16,895)	(16,161)	(16,950)	–	–	(50,006)
		71,239	61,328	55,928	–	–	188,495
Investment income, gains on sales of investments, and exchange movements		7,873	3,247	3,688	64,253	(5,722)	73,339
Transfers		–	–	–	39,811	–	39,811
		79,112	64,575	59,616	104,064	(5,722)	301,645
Members' & Pool Claims		(38,181)	(25,005)	(11,990)	–	–	(75,176)
Expenses & Tax		(10,482)	(9,999)	(12,326)	(2,848)	–	(35,655)
Surplus Available on Closed Years	48,625						48,625
Balances Available for Outstanding Claims	48,625	30,449	29,571	35,300	101,216	(5,722)	239,439
Estimated Supplementary Calls	–	–	–	14,797	–	–	14,797
	48,625	30,449	29,571	50,097	101,216	(5,722)	254,236
Outstanding Claims	(85,379)	(46,576)	(51,825)	(94,906)	–	–	(278,686)
Reinsurance Recoveries	36,754	16,377	8,450	26,187	–	–	87,768
	(48,625)	(30,199)	(43,375)	(68,719)	–	–	(190,918)
	–	250	(13,804)	(18,622)	101,216	(5,722)	63,318
Newcastle P&I Association Reinsurance	–	15,596	–	–	–	–	15,596
Surplus/(Deficit) at 20 February 2001	**–**	**15,846**	**(13,804)**	**(18,622)**	**101,216**	**(5,722)**	**78,914**
Surplus/(Deficit) at 20 February 2000	(5,277)	10,054	(10,520)	–	81,266	8,692	84,215

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 2001.
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:

	1998/99 US$000's	1999/2000 US$000's	2000/2001 US$000's
General and administrative expenses	9,713	10,049	11,273
Merger costs transferred to Contingency Fund	(711)	(776)	(600)
Investment expenses	764	781	1,040
Taxation	716	(55)	613
	10,482	9,999	12,326

6. Estimated outstanding claims are net of expected reinsurance recoveries from the International Group of P&I Clubs, as reported at 20 February 2001 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	1998/ 1999	1999/ 2000	2000/ 2001	Claims Handling Reserve	Contingency Fund	Unrealised Gains	Total
	US$000's	US$000's	US$000's	US$000's	US$000's	US$000's	US$000's	US$000's
Calls								
Advance & Fixed Premium								
Invoiced in Prior Years		5,855	6,106	–	–	–	–	11,961
Invoiced in Current Year		(115)	(93)	7,505	–	–	–	7,297
		5,740	6,013	7,505	–	–	–	19,258
Release & Supplementary		294	179	90	–	–	–	563
		6,034	6,192	7,595	–	–	–	19,821
Reinsurance Premiums		(355)	(543)	(617)	–	–	–	(1,515)
		5,679	5,649	6,978	–	–	–	18,306
Investment income, gains on sales of investments, and exchange movements		336	169	105	–	1,341	391	2,342
Transfers		–	–	–	–	3,374	–	3,374
		6,015	5,818	7,083	–	4,715	391	24,022
Claims		(1,343)	(879)	(355)	–	–	–	(2,577)
Expenses & Tax		(1,933)	(2,399)	(3,086)	–	–	–	(7,418)
Surplus Available on Closed Years	1,601							1,601
Balances Available for Outstanding Claims	1,601	2,739	2,540	3,642	–	4,715	391	15,628
Outstanding Claims	(3,045)	(2,485)	(1,796)	(4,685)	(3,000)	–	–	(15,011)
Reinsurance Recoveries	1,444	–	–	–	–	–	–	1,444
	(1,601)	(2,485)	(1,796)	(4,685)	(3,000)	–	–	(13,567)
Surplus/(Deficit) at 20 February 2001	**–**	**254**	**744**	**(1,043)**	**(3,000)**	**4,715**	**391**	**2,061**
Surplus/(Deficit) at 20 February 2000	(246)	(592)	(349)	–	(2,400)	4,139	(266)	286

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 2001.
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:

	1998/99	1999/2000	2000/2001
	US$000's	US$000's	US$000's
General and administrative expenses	1,879	2,369	2,957
Investment expenses	33	32	54
Taxation	21	(2)	75
	1,933	2,399	3,086

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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