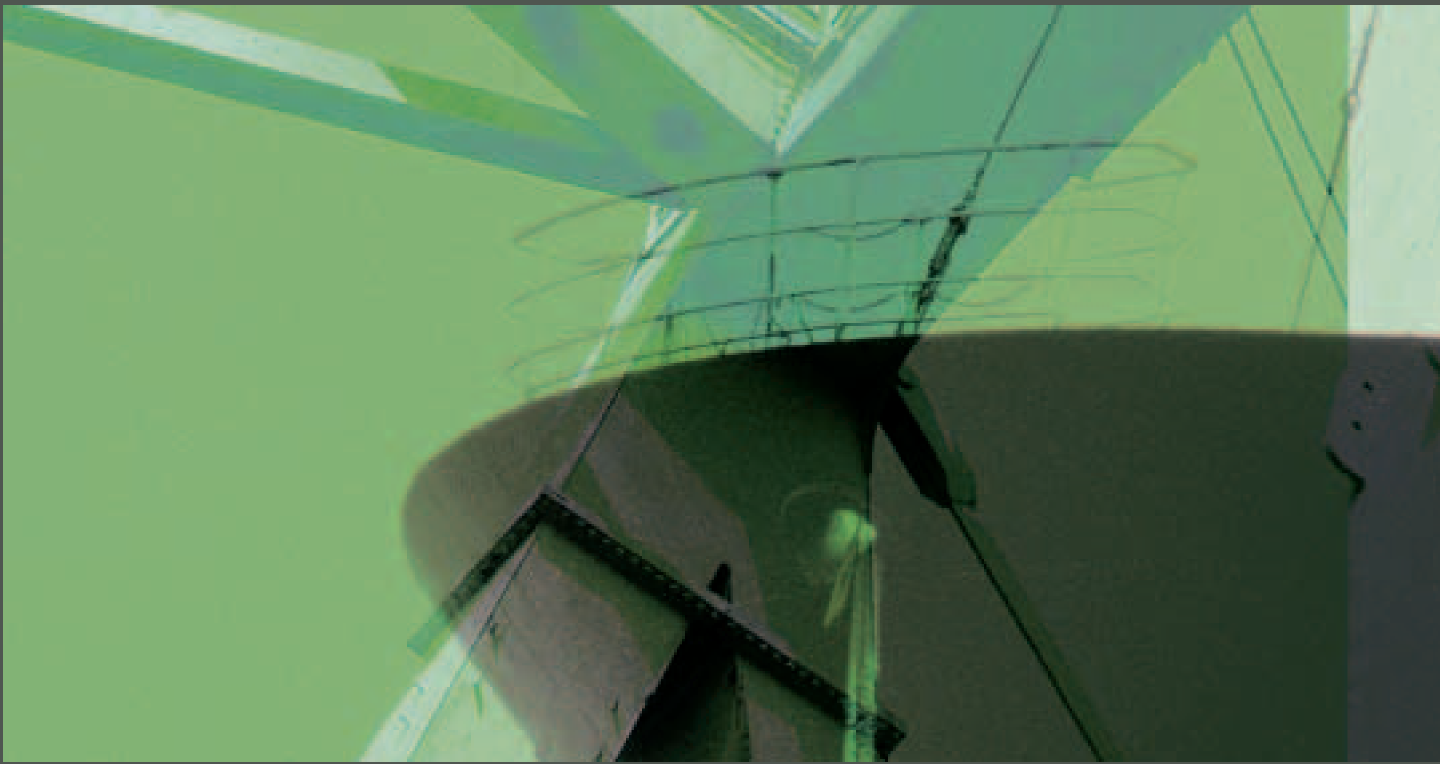
MANAGEMENT REPORT 2003



NORTH OF ENGLAND

CONTENTS

Registered in England. Company registration number: 505456
VAT registration number: 178 1131 69

MANAGEMENT HIGHLIGHTS

Finance

- Free reserves increase to US$99.6 million
- A- rating retained in S&P's 2003 report
- Premium income increases to US$133.1 million

Membership

- Entered tonnage at a record 43 million GT at 2003 renewal
- Growth from existing Members

Service

- Competitive average expense ratio at 9.3%
- Staff levels increased to complement continued growth

FOUR YEAR COMBINED SUMMARY

Amount in US$ million; All classes

Income and expenditure

	2002/3	2001/2	2000/1	1999/0
Premium	133.1	106.7	100.3	88.4
Investment income less tax	6.1	0.8	15.8	2.0
Exchange gain / (loss)	9.3	(2.5)	(4.8)	(3.2)
Reinsurance costs	(23.9)	(19.4)	(16.8)	(16.8)
Net claims incurred	(99.1)	(71.2)	(86.1)	(55.0)
Expenses	(15.1)	(11.7)	(12.6)	(11.4)
Surplus / (Deficit) after tax	10.4	2.7	(4.2)	4.0
Gain / (Loss) on building revaluation	2.2	(0.1)	(0.7)	(0.1)
Increase / (Decrease) in free reserve	12.6	2.6	(4.9)	3.9

Balance sheet

	Feb-03	Feb-02	Feb-01	Feb-00
Investments	357.5	322.1	303.5	291.3
Cash	14.8	9.7	19.7	9.2
Other assets	37.1	41.1	46.2	59.0
	409.4	372.9	369.4	359.5
Creditors	(27.7)	(26.8)	(29.0)	(22.5)
Net assets	381.7	346.1	340.4	337.0
Net outstanding claims	(282.1)	(259.1)	(256.0)	(247.7)
Free reserves	**99.6**	**87.0**	**84.4**	**89.3**

CHAIRMAN'S STATEMENT

George Procopiou

It is an honour once again to introduce the management report of the North of England P&I Club, one of the world's major maritime insurers.

It is the only P&I club, and one of only six insurance businesses in Europe, to have been given a 'positive outlook' by leading ratings agency Standard and Poor's, in 2003.

ANOTHER POSITIVE FINANCIAL YEAR RESULT

As the figures in these pages show, the Club once again achieved a positive financial year result thanks to the prudence of its managers and the loyalty and quality of its members. Investments have also produced another positive return despite difficult market conditions.

Entered tonnage reached a record 43 million GT at the 2003 renewal and continues to grow, although most of the growth is now from existing members during the year, rather than new members at renewal.

Naturally, as with any successful business, the Club is reluctant to stand still so it continues to be acquisitive – but only in a highly targeted and selective way that builds on and complements the high quality membership.

REINSURANCE RENEWAL

It is pleasing to report that the Club has extended its long-standing relationship with AA rated professional reinsurer Swiss Re. The Club's retention reinsurance programme, a combination of stop loss and excess of loss, has been renewed for a further three years from February 2003. The strong relationship with Swiss Re and the comprehensive reinsurance protection this affords is an integral part of the Club's overall strength and financial stability.

On a less pleasing note was the renewal of the International Group excess of loss contract, at an overall 37% increase in premium, notwithstanding the Group's excellent long-term record. It may well be time for the Group to further reduce its reliance on the commercial market and to continue to assume more risk itself.

THE NEED FOR A BETTER UNDERSTANDING OF SHIPPING

The recent year was memorable in many respects. A number of major shipping incidents hit the world's headlines – the *Prestige* oil tanker, which broke up off the Spanish coast in November 2002, and a month later the *Tricolor* car carrier, which sank following a collision in the English Channel.

Two other major incidents which resulted in International Group pool claims were the major fire and resultant CTL of the *Hanjin Pennsylvania* and the loss of the *Hual Europa* off the coast of Japan.

These incidents cost the shipping community dear, not only in pooled insurance claims but in some cases for the hostile, knee-jerk responses of governments and politicians and the public perception of shipping. The imprisonment of the *Prestige's* master Apostolos Mangouras and unqualified condemnation of single-hulled tankers are clear evidence that we have a long way to go in educating the world at large about the risks, realities and global importance of shipping.

WORKING FOR CHANGE WITH THE INTERNATIONAL GROUP

North of England Directors called on the International Group in February 2003 to establish a new co-ordinating body to focus the shipping industry's efforts to educate and lobby governments and decision makers.

The Club's previous call for a group committee to tackle unfair jurisdictions was also evident as the new claims co-operation committee met three times during the year and is now undertaking a series of initiatives, including closer monitoring and development of personal contacts with governments, lawyers, port authorities and local cargo receivers, in several parts of the world.

A SEA OF NEW REGULATIONS – SOME WELCOME, SOME NOT

The inevitable consequence of government mistrust is more regulation, but not all of this is unwelcome. In 2002/3 we saw the introduction of the new STCW 95 certification for seafarers and extension of the ISM Code to all international shipping over 500 GT.

While adding to the management burden of some, the new rules should be welcomed by all for their potential to make shipping a fairer, safer and more profitable industry in which to work.

Of more concern was the adoption of the 2002 Athens Protocol, although 10 States are required to ratify the protocol before the 12 month countdown begins. As highlighted by the International Group, the proposed changes in passenger liability insurance, including no-fault liability, increased limits per passenger and direct action against P&I clubs, could prove to be unsustainable.

MARKET VOLATILITY CREATES FURTHER UNCERTAINTY

The significant increases in oil pollution liability limits under the October 2000 amendments to the CLC and IOPC Fund Conventions, due to come into force on 1 November this year, have put further pressure on tanker-owners in what is proving to be a highly volatile market. During the final months of last year, tanker rates doubled and tripled only to fall again once the war in Iraq was over.

Rates for dry cargo carriers showed a similar yet more sustainable surge, with rates across the sector having doubled in the last 12 months. Much of this is good news for shipowners but it also serves to remind us that the global shipping market is an ever-changing environment beyond any single source of control and we should be aware that behind every peak there will be another trough.

STRIVING FOR BETTER QUALITY AND BETTER RELATIONSHIPS

As shipowners and insurers we must continue to strive to achieve the highest operating standards, but we must also educate regulators as well as our commercial partners to respect those standards and make due allowance for achieving them. That means according a higher level of trust to quality shipowners, reflected in less interference and more beneficial working relationships.

The Club is focused on enhancing its already high service levels while keeping a close control on costs. This is being achieved through a combination of continuing recruitment and internal systems development.

Furthermore, the Club continues to work with the International Group to help improve the political and regulatory environment in which the shipping industry operates as well as providing an unrivalled range of loss-prevention tools and advice to members.

This has been another year of solid and successful development for North of England and it remains for me to thank all my fellow Directors at the Club, who give freely of their time and experience, and to all managers and staff for looking after our interests in such an efficient and excellent way.

I wish the Club, its Members, friends and associates every success in the future.

George Procopiou
Chairman
August 2003

MEMBERSHIP

The gross premium income of all classes of North of England rose by 25% in 2002/3 to US$133.1 million, with P&I premium amounting to US$124.5 million. This reflected a P&I general increase of over 20% achieved at the February 2002 renewal and further growth from both new and existing members.

Following continued development of the membership during 2002 the Club again enjoyed tremendous support at the 2003 renewal particularly from existing members who entered a further 2.4 million GT, a number of whom decided to commit their entire fleets to North of England.

The total P&I entry on 20 February 2003 amounted to 43 million GT consisting 35 million GT owned and 8 million GT chartered tonnage.

INCREASING QUALITY OF MEMBERSHIP

At the 2003 renewal the Club maintained its commitment to develop a quality portfolio and as a result renewal terms were not offered to approximately 1 million GT.

In addition a further 500,000 GT left the Club having been unable to agree renewal terms.

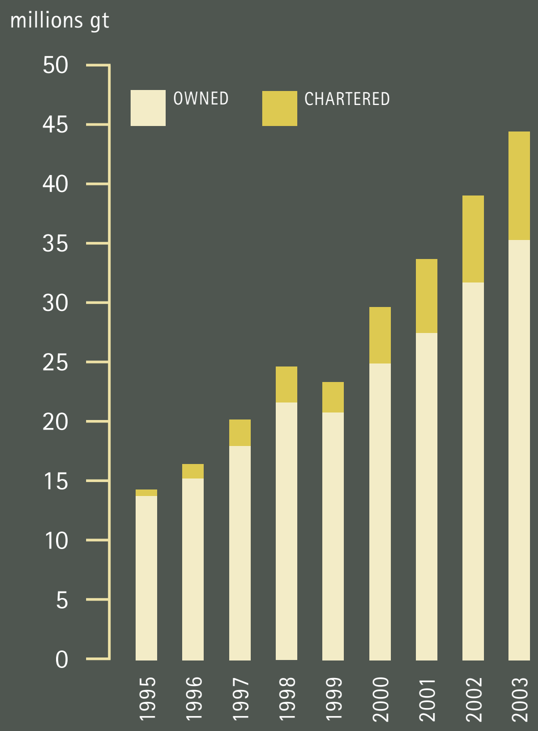
MEMBERSHIP BALANCE MAINTAINED

Despite the increasing size of the P&I entry, the composition of tonnage remains consistent and in line with the Club's policy of minimising its dependence or exposure to any one type of trade or geographical location (see charts opposite).

The quality of all entered tonnage and the management systems adopted by operators and owners are carefully monitored. Condition surveys and assessment form an integral part of the highly acclaimed North of England risk management programme.

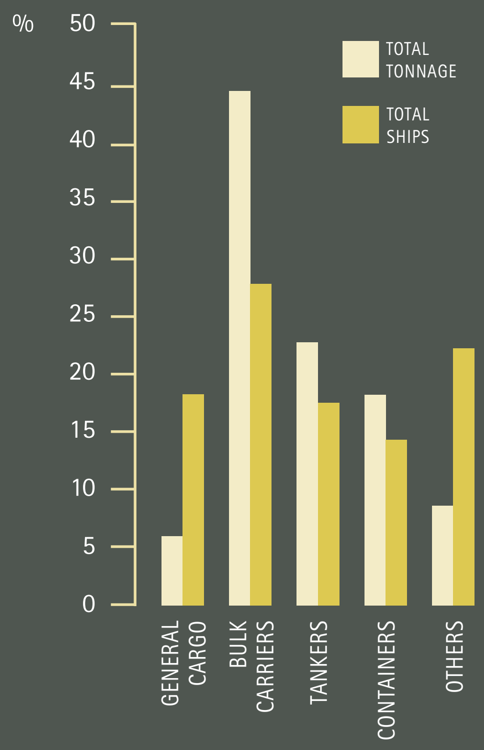
- Gross premium income rose 25% to US$133.1 million
- P&I tonnage reached a record 43 million GT at renewal
- Tonnage growth primarily from existing members
- Tonnage quality continuously reviewed

ENTERED TOTAL TONNAGE



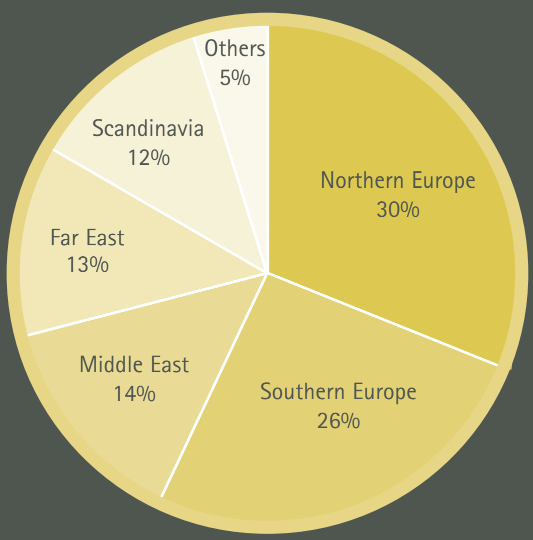
Total P&I tonnage at the 2003 renewal grew to a record 43 million GT

ENTERED TOTAL TONNAGE (BY SHIP TYPE)



The range of vessels entered in the Club demonstrates a balanced portfolio

TOTAL ENTERED TONNAGE (BY AREA OF MANAGEMENT)



The Club has a diversified global membership

FINANCES

By achieving another positive financial year result and an improved investment return, the Club has been able to increase its total net assets (total assets less reinsurance, tax, creditors and accruals) to US$381.7 million and its overall free reserve to US$99.6 million, 14.5% up on last year.

For the P&I class, net assets were US$353.9 million with a free reserve of US$88.1 million (see charts opposite).

The Club's financial position has shown consistent improvement for more than a decade with only a minor setback in 2001. The successful development of the Club's finances is based on solid foundations which have evolved over many years, which include:

- Prudent and cautious underwriting
- Careful and conservative claims reserving with particular attention given to individual claim estimates
- A low risk investment strategy based upon capital preservation
- Comprehensive and highly secure reinsurance program
- Close monitoring of management expenses

UNDERWRITING RESULT

The financial year produced a US$5.6M underwriting loss and the 2002/3 policy year is currently showing a deficit of US$21.4M. The policy year is expected to follow the development of previous years and improve over time benefiting from investment income and positive claims developments. For example, the 2001/2 policy year improved from a deficit position at 20 February 2002 of US$19.6M to a deficit of US$10.5M at 20 February 2003.

SIGNIFICANT POSITIVE INVESTMENT RETURN

The Club's investment strategy in 2002/3 remained focused on capital preservation but nevertheless produced a significant positive return, which when relevant exchange gains are taken into account, contributed US$14.7 million in 2002/3 compared with just US$0.8 million the previous year.

The return on P&I class investments in the 2002/3 policy year was 4.82% compared with the composite benchmark index for the period of 5.64%.

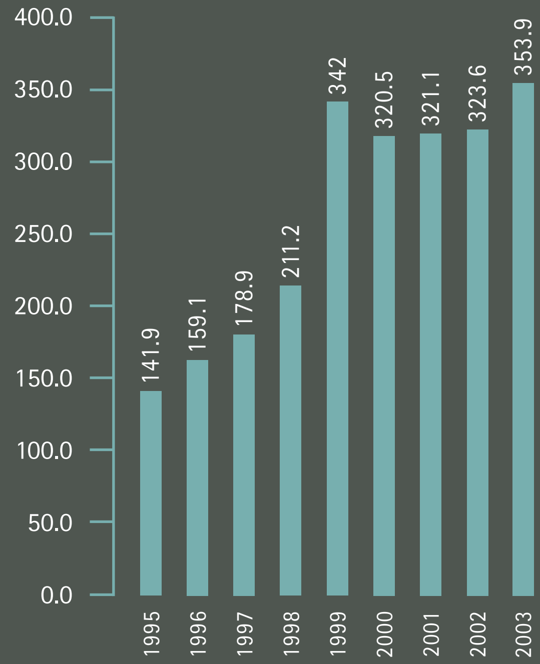
BONDS CONTINUE TO DOMINATE INVESTMENT PORTFOLIO

The profile of the Club's investment portfolio remained largely unchanged during 2002/3, with around 82% in bonds of varying maturity periods and cash and 18% in equities (see chart opposite). Bonds outperformed equities as world investment markets stayed generally depressed.

The Directors' investment committee continued to review and assess the performance of the Club's fund managers during the year. Following under performance by one manager changes were made at the beginning of 2003/4. Citigroup, SFI and Lazard continued to manage the bond portfolios but equities are now managed by Capital International and Marathon Asset Management whilst convertible bonds are managed by Cheyne.

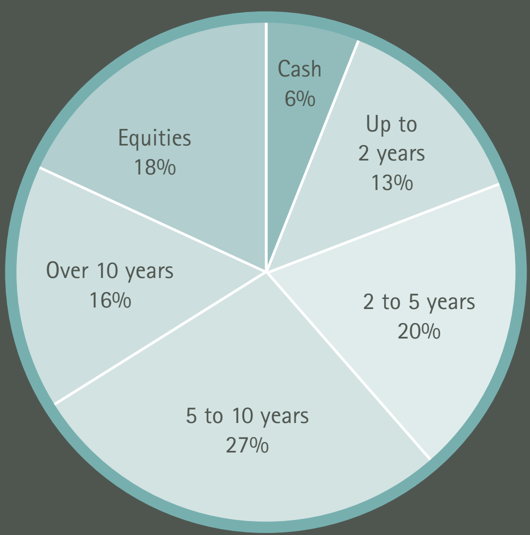
- Overall free reserves rose by 14.5% to US$99.6 million
- Investment income increased to US$14.7 million
- Investment strategy remained focused on capital preservation
- Return on P&I investments was 4.82%

P&I CLASS NET ASSETS (US$MILLIONS)



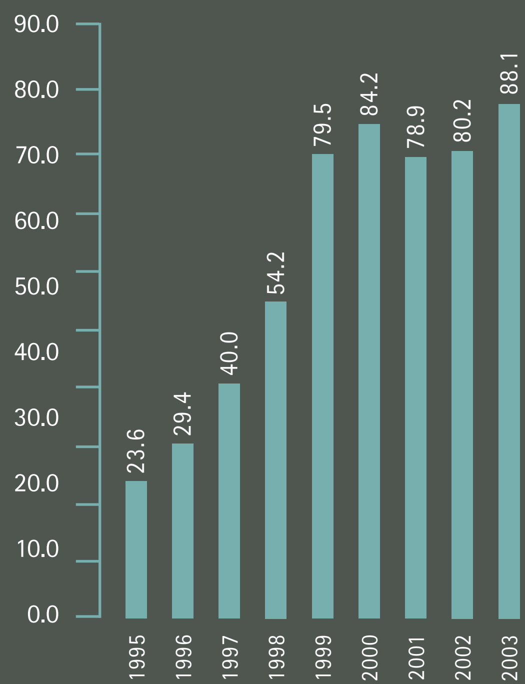
Net assets for the P&I class increased by 9%

INVESTMENT PORTFOLIO



The Club's conservative investment portfolio remained largely unchanged for 2002/3, with 82% in bonds and cash and 18% in equities.

P&I CLASS FREE RESERVES (US$MILLIONS)



The P&I class free reserve increased by 10%

REINSURANCE

The reinsurance programme at North of England is split between the International Group pooling and excess-of-loss programme and the Club's own retention reinsurance.

There is also a 'quota share' reinsurance contract with North of England Mutual Insurance Association (Bermuda) Limited, a company wholly owned by members, which allows 90% of the Club's risks to be reinsured through Bermuda. Financial statements for the British and Bermudian companies are combined in this report to provide a clear overview. The combined figures also form the basis of the Club's return to the UK Financial Services Authority.

INTERNATIONAL GROUP COSTS INCREASE SIGNIFICANTLY

The International Group's excess-of-loss reinsurance contract, covering claims above the pool limit of US$30 million, was renewed on 20 February 2003 at a 37% higher premium than the previous year (see vessel rates opposite). This, combined with the growth in club tonnage, resulted in the amount paid to the Group increasing to US$8.7 million last year.

Much publicity surrounded the renewal of the Group contract this year, and indeed the future structure of the contract is currently subject to a detailed review by the Group. Although the average increase was in the region of 37% there was an adjustment to the contributing cost of different ship categories. As can be seen in the chart opposite, passenger ship rates were increased by over 70% reflecting their risk profile.

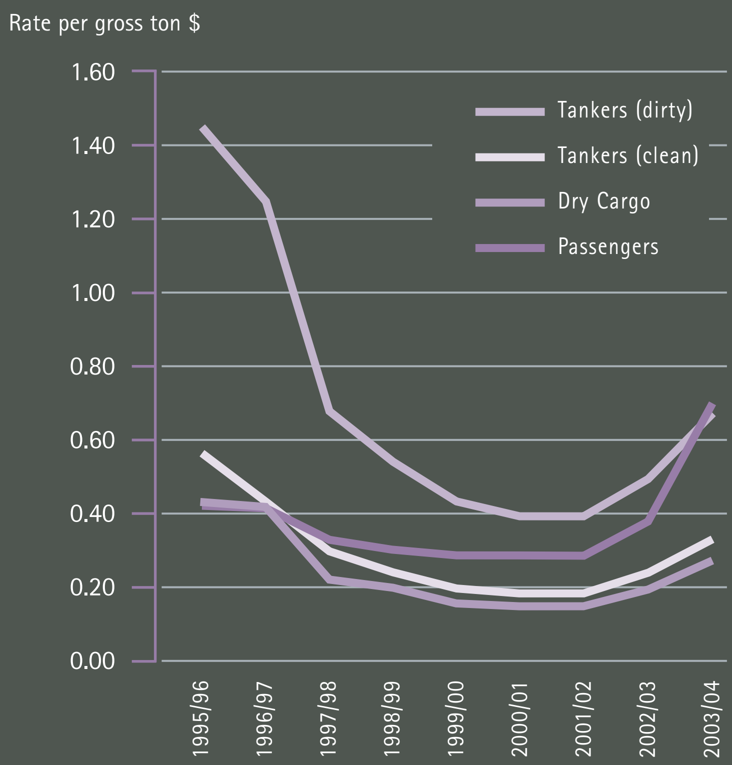
RETENTION REINSURANCE

Retention reinsurance for the Club is primarily provided by AA rated Swiss Re through a combination of stop-loss and excess-of-loss policies. This covers the first US$5 million of all claims which the Club retains under the Group pooling agreement, as well as the Club's share of pool contributions. The Club's long standing relationship with Swiss Re has been extended by virtue of the renewal of the retention contract for a further 3 year period from 2003.

The strength and stability of the Club is enhanced by these comprehensive reinsurance arrangements.

- Retention reinsurance with AA rated Swiss RE
- Club's retention reinsurance renewed for three years
- International Group reinsurance premium increased by 37%

INTERNATIONAL GROUP EXCESS LOSS REINSURANCE RATES

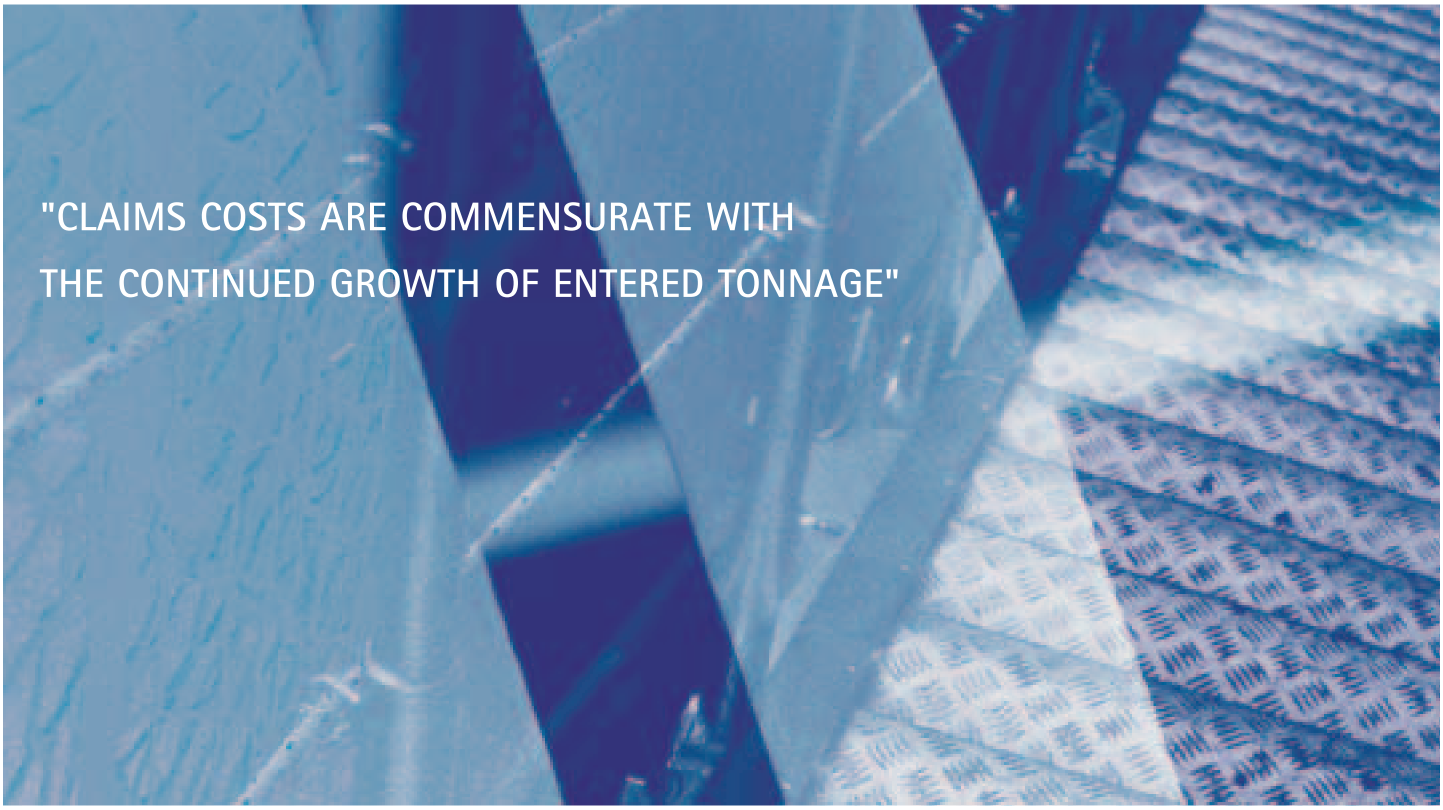


International Group reinsurance rates for all classes of vessel have increased sharply.

INTERNATIONAL GROUP REINSURANCE STRUCTURE 2003/4

US$m (from the ground up)

Overspill		Liability (shared by pool)		4,250 (approx)
Layer 4	500m	One reinstatement		2,030
Layer 3	500m	Unlimited reinstatements		1,530
Layer 2	500m	Unlimited reinstatements		1,030
Layer 1	500m	75% Unlimited reinstatements	25% Co-insurance	530
Pool retention	25m			30
Club retention	5m			5



P&I CLAIMS

The total cost of P&I claims reported during the 2002 Policy Year rose to US$99.7M which includes the Club's contribution to International Group pool claims including those for the *Prestige, Tricolor, Hual Europa* and *Hanjin Pennsylvania*.

The number of claims reported has increased to more than 5,000 during the year, however, this increase is commensurate with the continued tonnage development of the Club.

Within the 5,113 claims reported during the year were 11 claims with an estimated value of more than US$1M. These include a serious personal injury claim on board an entered ship, whilst in the USA, when a crew member was severely injured. Other significant claims which fall within this category include damage to underwater cables sustained whilst a vessel was anchoring and an engine room flooding incident which ultimately led to the total loss of a handymax bulk carrier. Additionally two fixed and floating object claims arose; one involving a collision with a shore crane in France and another when a tanker struck the berth following pilot error.

The majority of P&I claims handled by the Club are cargo claims which account for almost 60% of the total number of annual claims whilst personal injury claims account for a further 20% of the total.

A significant cost when handling claims is the cost of employing correspondents, lawyers and surveyors. That said, the long-term North of England strategy of employing qualified and highly experienced 'in-house' claims specialists, who can control costs and effectively manage claims, continues to benefit the wider North of England membership.

The Club strives to minimise costs and is actively pursuing an in-house cost control programme in order to limit external costs. To accommodate the growth of the Club and in order to ensure that members enjoy the high level of service to which they have become accustomed, the Club has continued its programme of quality recruitment including lawyers from major international law firms.

A significant part of the claims service is an integral fleet review programme which enables claims staff to focus on individual member issues. The fleet review programme promotes member/club interaction which is member specific yet focuses on a wide range of issues including crew contract reviews, revision of charter parties and bills of lading, loss prevention and member training. Where appropriate club personnel have spent time in members offices to assist in the development of risk management and loss prevention procedures which have helped to improve individual fleet P&I claims records. The Club encourages all claims personnel to develop close relationships with member companies and this has meant that a significant number of members regularly discuss loss prevention issues with claims personnel long before claims arise.

- Total of 5,113 P&I claims reported
- 11 P&I claims costing more than US$1M occurred in 2002 Policy Year
- Cargo claims account for 59% of total number

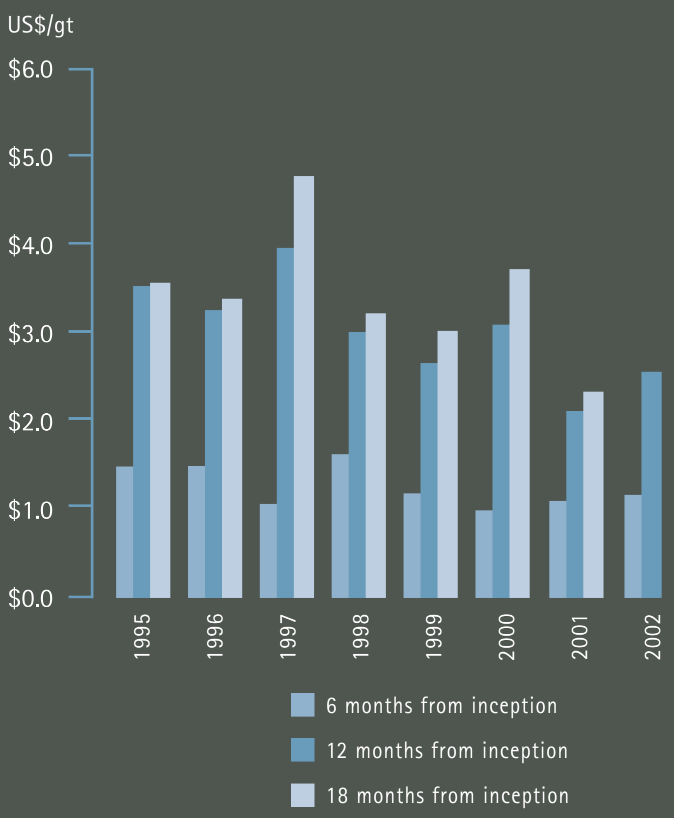
P&I ONLY: NUMBER OF CLAIMS BY VALUE RANGE, EXCLUDING POOL CLAIMS

12 months from inception

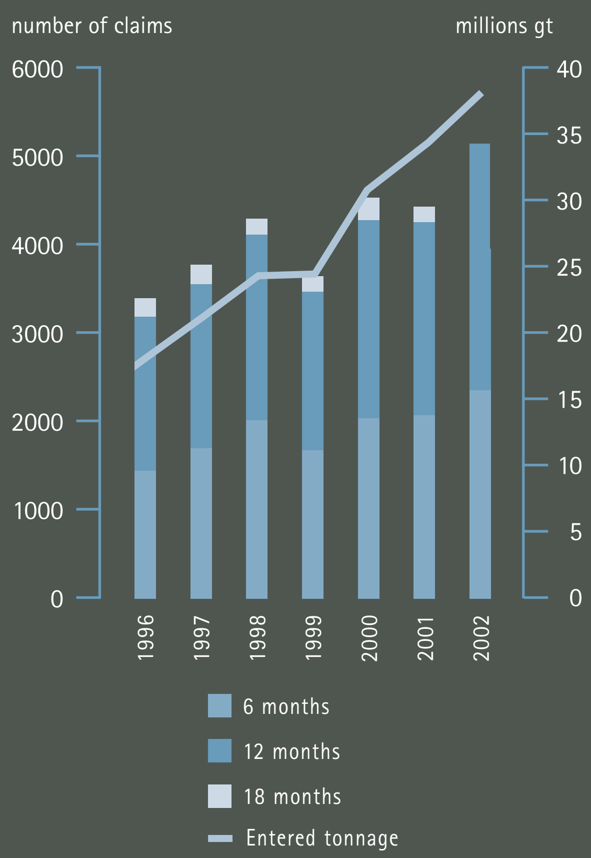
	1996	1997	1998	1999	2000	2001	2002
Over $2.0m	2	9	4	3	10	2	3
$1.0m - $2.0m	6	2	3	3	3	4	8
$0.5m - $1.0m	11	16	15	20	15	14	22
$0 - $0.5m	3,150	3,464	4,076	3,423	4,218	4,196	5,080
Total	3,169	3,491	4,098	3,449	4,246	4,216	5,113

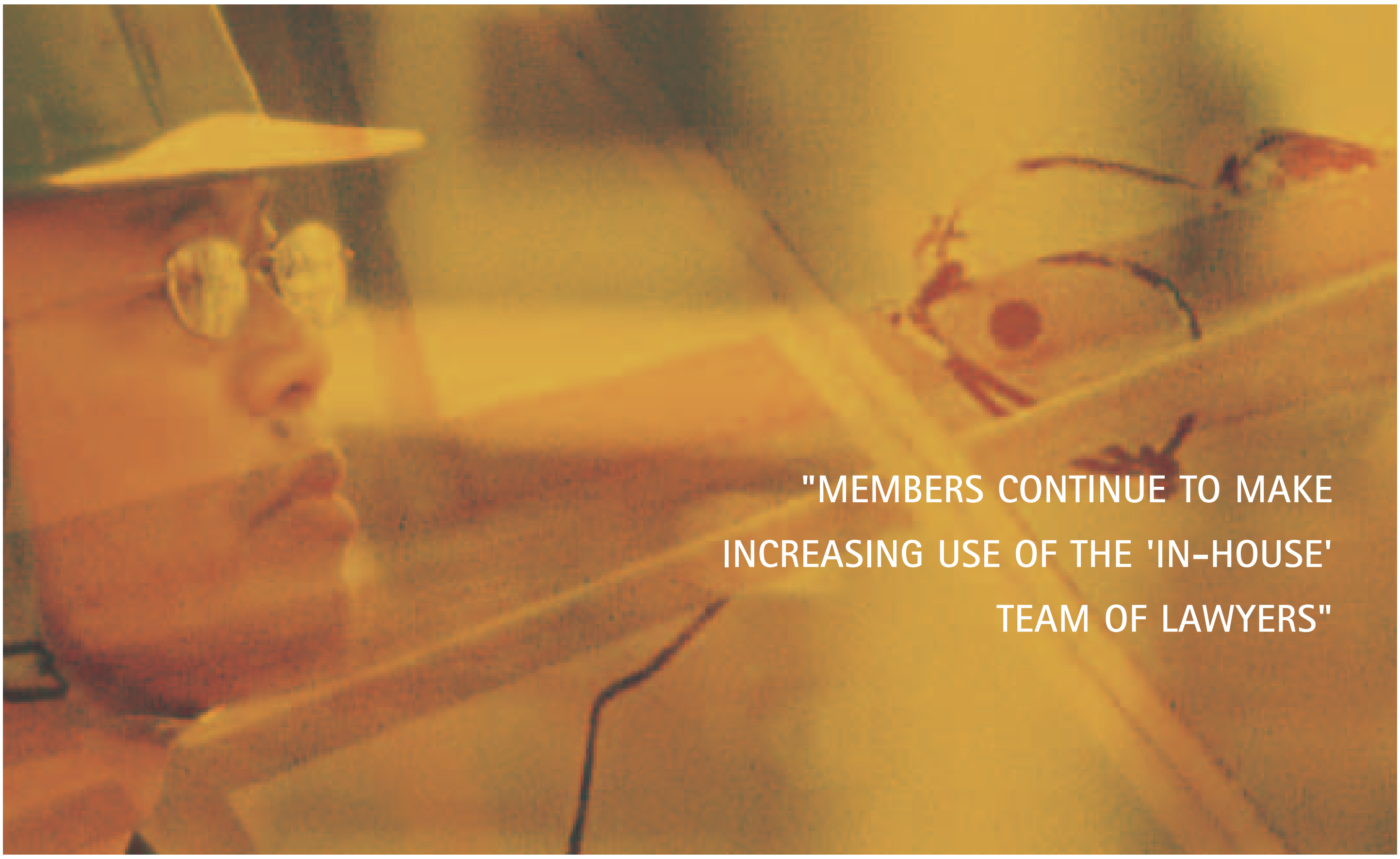
P&I claims breakdown by value

INCURRED CLAIMS PER US$/GT



NUMBER OF CLAIMS REPORTED





FD&D CLAIMS

The number of vessels entered in the North of England's FD&D Class increased only modestly during the 2002/2003 policy year to an average of 1,063 representing over 40% of the Club's P&I fleet. Claims numbers were more or less constant, however, Members continue to make increasing use of the North of England's 'in-house' team of lawyers with the number of loss prevention type enquiries increasing 8% to 1,706.

VOLATILE FREIGHT MARKETS

The increased number of loss prevention type enquiries is also a reflection of the volatility experienced in most freight markets across all vessel segments during the 2002/2003 policy year. In particular, the Managers of the Association have seen an increase in the number of disputes relating to the legitimacy of charterers' final voyage orders, with both charterers and owners wishing to take advantage of the higher freight rates available in the market.

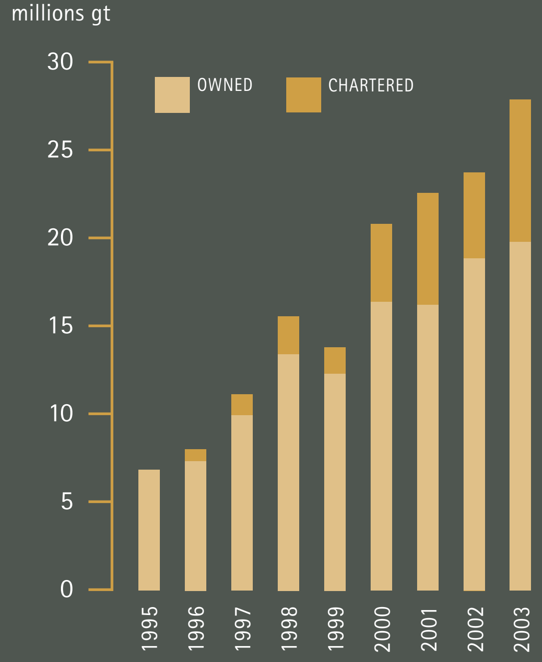
As in previous years, most FD&D claims arose under charterparties and there continue to be problems caused by charterers becoming insolvent. To help Members cover the cost of completing voyages as well as protecting themselves from unpaid third party debts such as those of bunker suppliers, stevedores, etc following the insolvency of charterers, the Club developed a "Maritime Lien Insurance for Charterers' Debts" policy which was launched in August 2002. This is believed to be the only such cover available in the market at present and is only available to North of England FD&D Class Members. About 100 FD&D Class entered vessels have purchased this additional cover.

RESERVES INCREASE

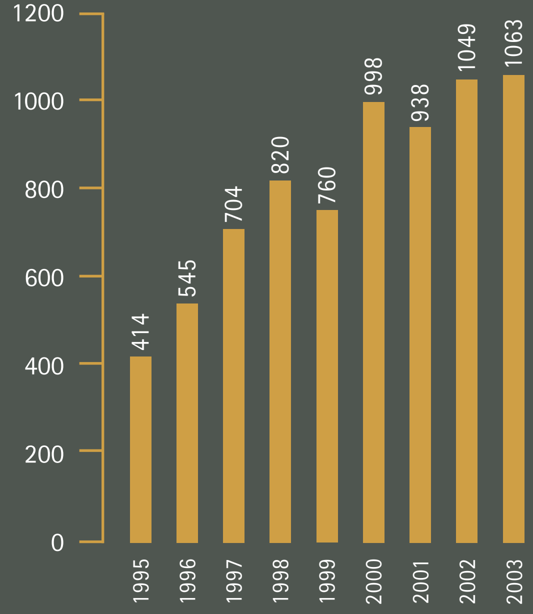
The FD&D Class free reserve increased 66% during the last policy year to stand at US$6.8 million at 20 February 2003. This improvement in the Class finances was as a result of an investment return of 13.6% as well as a number of significant costs recoveries following settlements, mediations and successful arbitration awards. The FD&D Class portfolio continues to be held in bonds and cash.

- 1,063 ships entered for FD&D
- Over 40% of P&I Ships are also entered for FD&D
- Loss prevention enquiries increased to 1,706
- Investment return 13.6%
- Reserves increased to US$6.8 million

FD&D ENTERED TOTAL TONNAGE



AVERAGE NUMBER OF SHIPS INSURED FOR FD&D



COMBINED FINANCIAL STATEMENTS

CONTENTS

The North of England P&I Association Limited's financial statements for the year ended 20 February 2003 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 18 to 31 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 upon 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

Accountants' Report to The Members of North of England Protecting and Indemnity Association Limited and North of England Mutual Insurance Association (Bermuda) Limited

We report on the unaudited combined financial statements and policy year statement of North of England Protecting and Indemnity Association Limited ("NEPIA") and North of England Mutual Insurance Association (Bermuda) Limited ("NoE(Bermuda)") for the year ended 20 February 2003 ("the combined financial statements").

Our Report is prepared solely for the confidential use of NEPIA and NoE(Bermuda), and solely for the purpose of informing the members of the NEPIA and NoE(Bermuda). To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than NEPIA and NoE(Bermuda) and of the common members of NEPIA and NoE(Bermuda) as a body, for our work, for this report, or for the opinions we have formed.

RESPONSIBILITIES

NEPIA is responsible for the preparation of the combined financial statements and the policy year statement.

It is our responsibility to carry out procedures designed to enable us to express an opinion as to whether the combined financial statements and policy year statement have been accurately extracted from the financial statements of NEPIA and NoE(Bermuda) for the year ended 20 February 2003.

BASIS OF OPINION

We have performed the procedures enumerated below with respect to the combined financial statements. The procedures were performed solely to assist the directors with the requirements to prepare the combined financial statements and are summarised as follows:

1. We agreed NEPIA's figures used in the combined financial statements working papers to the signed statutory consolidated financial statements of NEPIA as at 20 February 2003.

   The auditors' report on the statutory consolidated financial statements of NEPIA was issued by ourselves on 19 May 2003 and was unqualified;

2. We agreed NoE(Bermuda)'s figures used in the combined financial statements working papers to the signed statutory financial statements of NoE(Bermuda) as at 20 February 2003.

   The auditors' report on the statutory financial statements of NoE(Bermuda) was issued by Moore Stephens & Butterfield on 14 May 2003 and was unqualified;

3. We checked the numerical accuracy of the combined financial statements working papers, including the policy year statement; and

4. We reviewed the accounting policies adopted by NEPIA and NoE(Bermuda), as defined in their respective statutory financial statements, to review whether they are consistent.

Our procedures did not constitute an audit in accordance with Auditing Standards. In particular we have not verified any information or documentation provided to us and we should not be taken to have done so beyond the procedures described above.

OPINION

We report that:

(a) The combined financial statements and policy year statement have been accurately compiled from the statutory financial statements of NEPIA and NoE(Bermuda); and

(b) Consistent accounting policies have been adopted by NEPIA and NoE(Bermuda).

Deloitte & Touche

Chartered Accountants

Newcastle upon Tyne

19 May 2003

COMBINED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 20 FEBRUARY 2003

	Notes	Total 2003 US$000's	Total 2002 US$000's
TECHNICAL ACCOUNT – GENERAL BUSINESS			
Gross premiums written	2	133,103	106,681
Outward reinsurance premiums	3	(23,850)	(19,373)
		109,253	87,308
Allocated investment return transferred from the non-technical account		6,690	756
Gains / (Losses) on exchange		9,349	(2,509)
Total technical income		125,292	85,555
Claims paid			
Gross amount	4	(98,201)	(87,607)
Reinsurers' share		22,083	19,474
		(76,118)	(68,133)
Change in the provision for claims			
Gross amount	5	(20,324)	16,371
Reinsurers' share		(2,709)	(19,439)
		(23,033)	(3,068)
Net operating expenses	6	(15,080)	(11,711)
Total expenditure		(114,231)	(82,912)
Balance on the technical account for general business		11,061	2,643
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		11,061	2,643
Investment income	7	2,608	8,308
Unrealised gains / (losses) on investments		5,543	(6,266)
Investment expenses and charges		(1,461)	(1,286)
		6,690	756
Allocated investment return transferred to the general business technical account		(6,690)	(756)
Surplus / (Deficit) on ordinary activities before tax		11,061	2,643
Tax on ordinary activities	8	(626)	25
Surplus / (Deficit) for the financial year		10,435	2,668
Transfer to Contingency fund	11	(9,232)	(34,745)
Transfer to / (from) Income and Expenditure reserve		1,203	(32,077)
Income and Expenditure reserve brought forward		(53,340)	(21,263)
Income and Expenditure reserve carried forward		(52,137)	(53,340)

	Protecting & Indemnity Class		Freight, Demurrage & Defence Class		War Risks Class	
	2003 US$000's	2002 US$000's	2003 US$000's	2002 US$000's	2003 US$000's	2002 US$000's
	124,460	98,769	8,381	7,905	262	7
	(23,228)	(18,794)	(383)	(479)	(239)	(100)
	101,232	79,975	7,998	7,426	23	(93)
	4,704	272	2,093	1,007	(107)	(523)
	8,704	(2,380)	603	(117)	42	(12)
	114,640	77,867	10,694	8,316	(42)	(628)
	(94,835)	(84,249)	(3,363)	(3,358)	(3)	-
	22,083	19,213	-	261	-	-
	(72,752)	(65,036)	(3,363)	(3,097)	(3)	-
	(18,072)	17,420	(2,252)	(1,049)	-	-
	(2,137)	(18,713)	(572)	(726)	-	-
	(20,209)	(1,293)	(2,824)	(1,775)	-	-
	(13,291)	(10,216)	(1,673)	(1,388)	(116)	(107)
	(106,252)	(76,545)	(7,860)	(6,260)	(119)	(107)
	8,388	1,322	2,834	2,056	(161)	(735)
	8,388	1,322	2,834	2,056	(161)	(735)
	2,521	7,043	1,341	1,251	(1,254)	14
	3,544	(5,540)	841	(185)	1,158	(541)
	(1,361)	(1,231)	(89)	(59)	(11)	4
	4,704	272	2,093	1,007	(107)	(523)
	(4,704)	(272)	(2,093)	(1,007)	107	523
	8,388	1,322	2,834	2,056	(161)	(735)
	(512)	-	(119)	-	5	25
	7,876	1,322	2,715	2,056	(156)	(710)
	(6,357)	(33,909)	(2,875)	(836)	-	-
	1,519	(32,587)	(160)	1,220	(156)	(710)
	(54,889)	(22,302)	(1,434)	(2,654)	2,983	3,693
	(53,370)	(54,889)	(1,594)	(1,434)	2,827	2,983

COMBINED BALANCE SHEET

AT 20 FEBRUARY 2003

	Notes	Total 2003 US$000's	Total 2002 US$000's
ASSETS			
Investments			
Land and buildings		8,448	6,282
Other financial investments	9	349,019	315,785
		357,467	322,067
Reinsurers' share of technical provisions			
Claims outstanding		79,262	81,971
Debtors			
Estimated net product of future supplementary calls		-	14,003
Debtors arising out of direct insurance operations	10	24,796	10,121
Debtors arising out of reinsurance operations		2,825	1,562
Taxation		-	25
Other debtors		1,533	7,276
		29,154	32,987
Other assets			
Tangible assets		1,849	1,722
Cash at bank and in hand		14,828	9,691
		16,677	11,413
Prepayments and accrued income		6,086	6,409
Total assets		488,646	454,847
LIABILITIES			
Reserves			
Income and expenditure account		(52,137)	(53,340)
Contingency fund	11	149,908	140,676
Accumulated surplus		97,771	87,336
Revaluation reserve		1,823	403
Foreign exchange reserve		-	(746)
		99,594	86,993
Technical provisions			
Claims outstanding			
Gross amount		361,357	341,033
Provision for taxation		670	-
Creditors			
Creditors arising out of direct insurance operations		2,065	1,786
Creditors arising out of reinsurance operations		6,882	12,450
Amounts owed to credit institutions		3,922	4,152
Other creditors		12,294	6,675
		25,163	25,063
Accruals and deferred income		1,862	1,758
Total liabilities		488,646	454,847

Protecting & Indemnity Class		Freight, Demurrage & Defence Class		War Risks Class	
2003 US$000's	2002 US$000's	2003 US$000's	2002 US$000's	2003 US$000's	2002 US$000's
8,448	6,282	–	–	–	–
322,270	294,886	23,737	17,857	3,012	3,042
330,718	301,168	23,737	17,857	3,012	3,042
79,116	81,253	146	718	–	–
–	14,003	–	–	–	–
23,946	9,169	850	952	–	–
2,737	1,495	88	67	–	–
–	25	–	–	–	–
2,296	7,317	–	20	–	–
28,979	32,009	938	1,039	–	–
1,849	1,722	–	–	–	–
13,776	9,219	1,011	436	41	36
15,625	10,941	1,011	436	41	36
5,846	6,219	240	190	–	–
460,284	431,590	26,072	20,240	3,053	3,078
(53,370)	(54,889)	(1,594)	(1,434)	2,827	2,983
141,482	135,125	8,426	5,551	–	–
88,112	80,236	6,832	4,117	2,827	2,983
1,823	403	–	–	–	–
–	(746)	–	–	–	–
89,935	79,893	6,832	4,117	2,827	2,983
343,045	324,973	18,312	16,060	–	–
670	–	–	–	–	–
1,964	1,781	72	5	29	–
6,696	12,397	–	19	186	34
3,922	4,152	–	–	–	–
12,294	6,675	763	–	–	61
24,876	25,005	835	24	215	95
1,758	1,719	93	39	11	–
460,284	431,590	26,072	20,240	3,053	3,078

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of preparation

The combined accounts aggregate the consolidated financial statements of North of England P&I Association Limited ("the Association") and the financial statements 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 financial statements as at 20 February 2003, which have been prepared in accordance with UK company law, and which included an unqualified audit report from Messrs Deloitte & Touche, Newcastle upon Tyne. Figures for NoE(Bermuda) are extracted from the audited financial statements as at 20 February 2003, 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.

These are non-statutory accounts and, as such, certain notes have been excluded.

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 combined 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 combined 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 Association has provided additional information as required under the transitional rules of FRS 17 "Retirement Benefits", however the accounts have been prepared using SSAP 24 as follows.

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.

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

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

Allocation to policy years and the contingency fund

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.

Revaluation reserve

The freehold property is revalued every three years with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the income and expenditure account. A deficit which represents a clear consumption of economic benefits is charged to the income and expenditure account regardless of any such previous surplus.

Foreign exchange reserve

Exchange differences arising on the translation of land and buildings are dealt with through reserves. All other exchange differences are included in the income and expenditure account.

Investments

All investments are stated in the balance sheet at their 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:

	2003			2002
United Kingdom	£0.627	=	US$1	(£0.700)
Euro	€0.924	=	US$1	(€1.147)
Japan	YEN118.430	=	US$1	(YEN133.855)

2. GROSS PREMIUMS WRITTEN

	2003 US$000's	2002 US$000's
Gross premiums charged	147,106	106,632
Change in provision for future calls	(14,003)	(794)
Newcastle P&I Association	-	843
	133,103	106,681

NOTES TO THE ACCOUNTS
(CONTINUED)

3. REINSURANCE PREMIUMS

	2003 US$000's	2002 US$000's
Market	14,931	13,292
International Group	8,680	5,981
War Risks Group	239	100
	23,850	19,373

4. GROSS CLAIMS PAID

	2003 US$000's	2002 US$000's
Members' claims	78,691	69,140
Newcastle P&I Association reinsurance	5,079	2,960
Other P&I Clubs' pool claims	5,773	7,814
Claims handling costs	8,658	7,693
	98,201	87,607

5. CHANGE IN THE PROVISION FOR GROSS CLAIMS

	2003 US$000's	2002 US$000's
Members	52,057	(7,804)
Newcastle P&I Association reinsurance	(40,712)	(10,797)
Pooling agreement	8,979	2,230
	20,324	(16,371)

6. NET OPERATING EXPENSES

	2003 US$000's	2002 US$000's
Brokerage	8,847	6,367
Acquisition costs	3,645	3,168
Administration expenses		
Gross	12,327	10,666
Merger expenses	24	193
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(1,105)	(990)
Claims handling costs	(8,658)	(7,693)
	2,588	2,176
Net operating expenses	15,080	11,711

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 2003. The Ratio of 9.3% (2002 – 9.0%) 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

	2003 US$000's	2002 US$000's
Income from listed investments	11,971	11,548
Bank and other interest receivable	207	499
Realised losses	(9,570)	(3,739)
	2,608	8,308

8. TAX

	2003 US$000's	2002 US$000's
Corporation tax on investment income at 30% (2002 – 30%)	642	(25)
Adjustment in respect of prior years	(16)	-
Charge / (Credit) for the year	626	(25)

There is no provided or unprovided deferred tax at 20 February 2003 (2002 – nil).

Given the Association's mutual status, taxation is only payable on the UK investment return.

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.

	2003 US$000's	2002 US$000's
Market Value		
Shares and other variable-yield securities	65,656	72,678
Fixed income securities	277,039	232,430
Unrealised loss on forward exchange contracts	(255)	(123)
Deposits with credit institutions	6,579	10,800
	349,019	315,785
Cost		
Shares and other variable-yield securities	83,582	86,566
Fixed income securities	265,711	230,670
Deposits with credit institutions	6,579	10,800
	355,872	328,036

NOTES TO THE ACCOUNTS
(CONTINUED)

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

US$14.859m of mutual premium does not become due until November 2003.

11. CONTINGENCY FUND

Protecting & Indemnity Class

	2003 US$000's	2003 US$000's	2002 US$000's	2002 US$000's
Balance at 20 February 2002		135,125		101,216
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / losses and income	7,222		3,012	
(Deficit) / Surplus transferred from closed policy years	(841)		31,090	
Merger costs transferred from Income and Expenditure account	(24)		(193)	
		6,357		33,909
Balance at 20 February 2003		141,482		135,125

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

Freight, Demurrage & Defence Class

	2003 US$000's	2003 US$000's	2002 US$000's	2002 US$000's
Balance at 20 February 2002		5,551		4,715
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / losses and income	1,082		601	
Surplus transferred from closed policy years	1,793		235	
		2,875		836
Balance at 20 February 2003		8,426		5,551

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

12. 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$10,912,593 in relation to its participation in the arrangement.

13. OTHER GUARANTEES

In the normal course of business, the Association has provided letters of credit and guarantees. These are secured by investments lodged with the Association amounting to US$2.5 million (2002 - US$2.3 million).

COMBINED POLICY YEAR STATEMENTS

COMBINED P&I CLASS POLICY YEAR STATEMENT

	Closed Years US$000's	2000/ 2001 US$000's	2001/ 2002 US$000's	2002/ 2003 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		69,393	74,286	–	–	–	143,679
Invoiced in Current Year		(235)	(1,088)	115,342	–	–	114,019
		69,158	73,198	115,342	–	–	257,698
Release & Supplementary		17,935	18,961	1,085	–	–	37,981
		87,093	92,159	116,427	–	–	295,679
Reinsurance Premiums		(16,957)	(18,489)	(23,654)	–	–	(59,100)
		70,136	73,670	92,773	–	–	236,579
Investment income, gains on sales of investments, and exchange movements		5,080	1,928	2,077	74,487	(7,983)	75,589
Transfers		–	–	–	70,060	–	70,060
		75,216	75,598	94,850	144,547	(7,983)	382,228
Members' & Pool Claims		(48,070)	(26,336)	(11,851)	–	–	(86,257)
Expenses & Tax		(12,326)	(11,672)	(13,972)	(3,065)	–	(41,035)
Surplus Available on Closed Years	97,105						97,105
Balances Available for Outstanding Claims	97,105	14,820	37,590	69,027	141,482	(7,983)	352,041
Outstanding Claims	(121,627)	(54,837)	(49,649)	(103,148)	–	–	(329,261)
Reinsurance Recoveries	24,522	26,563	1,520	12,727	–	–	65,332
	(97,105)	(28,274)	(48,129)	(90,421)	–	–	(263,929)
Surplus / (Deficit) at 20 February 2003	**–**	**(13,454)**	**(10,539)**	**(21,394)**	**141,482**	**(7,983)**	**88,112**
Surplus / (Deficit) at 20 February 2002	(6,259)	(17,797)	(19,571)	–	135,125	(11,262)	80,236

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 2003.
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:

	2000/2001 US$000's	2001/2002 US$000's	2002/2003 US$000's
General and administrative expenses	11,273	10,634	12,123
Merger costs transferred to Contingency Fund	(600)	(193)	(24)
Investment expenses	1,040	1,231	1,361
Taxation	613	–	512
	12,326	11,672	13,972

6. Estimated outstanding claims are net of expected reinsurance recoveries from the International Group of P&I Clubs, as reported at 20 February 2003 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.
10. The approximate yield of a 10% supplementary call on the open policy years is:

2000/01	US$5.7 million
2001/02	US$6.2 million
2002/03	US$10.2 million

COMBINED FD&D CLASS POLICY YEAR STATEMENT

	Closed Years US$000's	2000/ 2001 US$000's	2001/ 2002 US$000's	2002/ 2003 US$000's	Claims Handling Reserve 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		7,470	7,480	–	–	–	–	14,950
Invoiced in Current Year		(16)	(119)	8,019	–	–	–	7,884
		7,454	7,361	8,019	–	–	–	22,834
Release & Supplementary		157	155	72	–	–	–	384
		7,611	7,516	8,091	–	–	–	23,218
Reinsurance Premiums		(578)	(544)	(515)	–	–	–	(1,637)
		7,033	6,972	7,576	–	–	–	21,581
Investment income, gains on sales of investments, and exchange movements		590	535	206	–	3,024	1,048	5,403
Transfers		–	–	–	–	5,402	–	5,402
		7,623	7,507	7,782	–	8,426	1,048	32,386
Claims		(1,656)	(1,165)	(241)	–	–	–	(3,062)
Expenses & Tax		(3,086)	(2,355)	(2,860)	–	–	–	(8,301)
Surplus Available on Closed Years	3,975							3,975
Balances Available for Outstanding Claims	3,975	2,881	3,987	4,681	–	8,426	1,048	24,998
Outstanding Claims	(4,121)	(2,122)	(2,979)	(5,090)	(4,000)	–	–	(18,312)
Reinsurance Recoveries	146	–	–	–	–	–	–	146
	(3,975)	(2,122)	(2,979)	(5,090)	(4,000)	–	–	(18,166)
Surplus / (Deficit) at 20 February 2003	**–**	**759**	**1,008**	**(409)**	**(4,000)**	**8,426**	**1,048**	**6,832**
Surplus / (Deficit) at 20 February 2002	1,323	(191)	232	–	(3,000)	5,551	202	4,117

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 2003.
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:

	2000/2001 US$000's	2001/2002 US$000's	2002/2003 US$000's
General and administrative expenses	2,957	2,296	2,652
Investment expenses	54	59	89
Taxation	75	–	119
	3,086	2,355	2,860

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.
10. The approximate yield of a 10% supplementary call on the open policy years is:

2000/01	US$0.5 million
2001/02	US$0.5 million
2002/03	US$0.6 million

NOTES

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