MANAGEMENT REPORT 2005

NORTH OF ENGLAND

Photography front cover: The 'Angel of the North' sculpture designed by the celebrated sculptor Antony Gormley OBE. The 'Angel of the North' is situated on a hill overlooking Gateshead and Newcastle. The sculpture is made from steel and stands 20m high with a wing span of 54m.

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MANAGEMENT HIGHLIGHTS

Finance

- Total free reserves increase by 6.6%, to US$142.3 million
- North of England's strength validated by full A rating by Standard and Poor's (S&P)
- Investment income return of US$21 million

Membership

- Entered tonnage increases to 54 million GT
- Annual net tonnage gain of 4 million GT
- Membership refinement programme advances

Service

- New focus on proactive loss prevention
- Claims handling resources enhanced
- Closer support for members

FINANCIAL SUMMARY

FIVE YEAR COMBINED SUMMARY

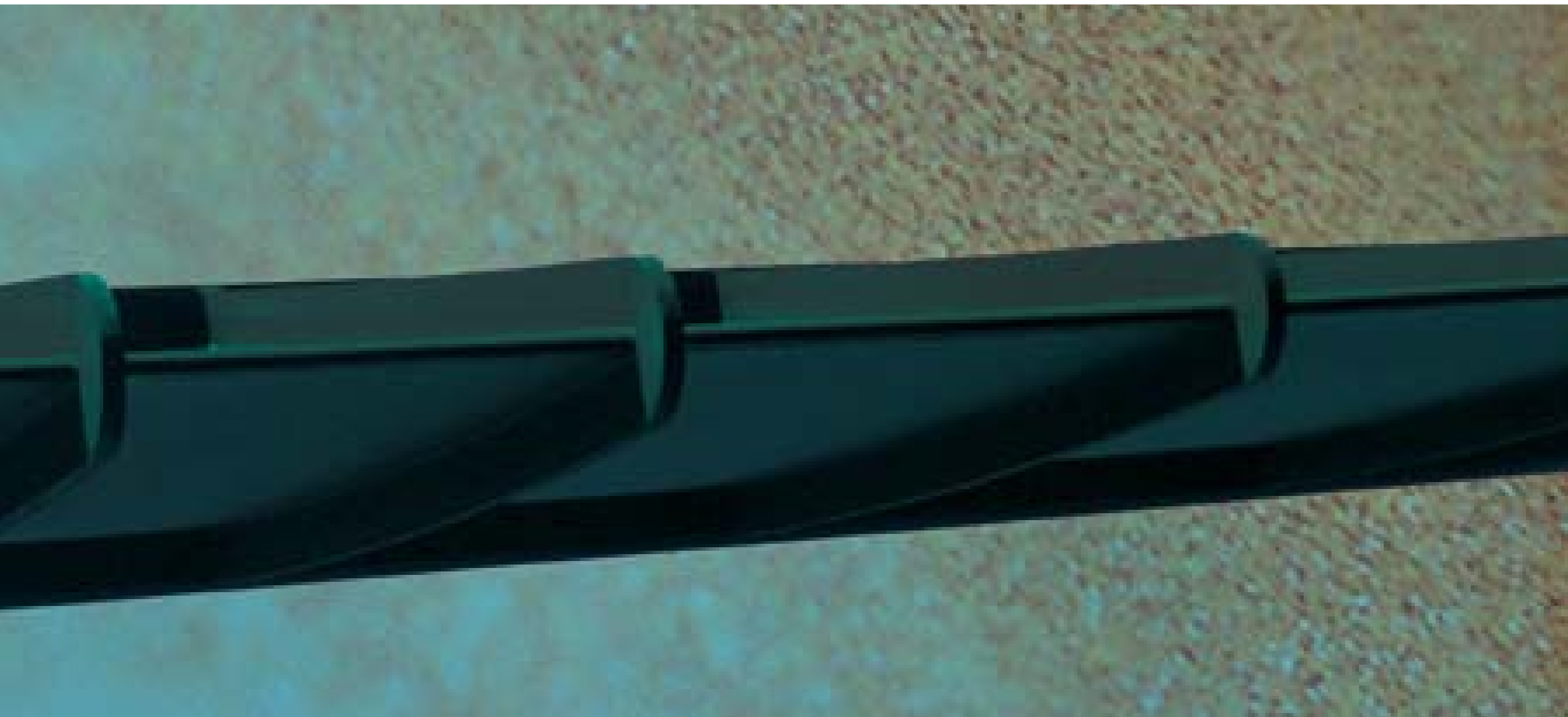
Amount in US$ million; All classes

Income and expenditure

	2004/5	2003/4	2002/3	2001/2	2000/1
Premium	174.5	156.5	133.1	106.7	100.3
Investment income less tax	19.3	39.7	7.5	0.8	15.8
Exchange gain / (loss)	1.8	12.5	10.1	(2.6)	(5.5)
Reinsurance costs	(32.6)	(31.7)	(23.9)	(19.4)	(16.8)
Net claims incurred	(136.2)	(126.7)	(99.1)	(71.2)	(86.1)
Expenses	(18.0)	(16.4)	(15.1)	(11.7)	(12.6)
Increase / (Decrease) in free reserve	8.8	33.9	12.6	2.6	(4.9)

Balance sheet

	Feb-05	Feb-04	Feb-03	Feb-02	Feb-01
Investments	360.5	282.5	352.0	321.5	302.0
Cash and cash equivalents	127.0	149.2	20.3	10.3	21.2
Other assets	15.6	33.9	37.1	41.1	46.2
	503.1	465.6	409.4	372.9	369.4
Creditors	(17.6)	(19.4)	(27.7)	(26.8)	(29.0)
Net assets	485.5	446.2	381.7	346.1	340.4
Net outstanding claims	(343.2)	(312.7)	(282.1)	(259.1)	(256.0)
Free reserves	**142.3**	**133.5**	**99.6**	**87.0**	**84.4**



CHAIRMAN'S STATEMENT

BILL THOMSON

The year to 20 February 2005 was a landmark in North of England's history. Tonnage entered with the Club grew to over 54 million GT. Furthermore, the Club's financial strength and consistent delivery of service excellence were recognised in the award of a full A rating from Standard & Poor's (S&P).

Whilst North of England continued to advance, hostile attitudes towards shipping persisted during the year. The acceleration of moves to criminalise seafarers caught up in marine accidents is a matter of grave concern. Political expediency has tipped the scales against the norms of natural justice.

GROWTH AND SERVICE QUALITY

"Tough yet satisfactory" is a fair description of the 2005-06 renewal experience. Premium increases and higher deductibles have met North of England's financial objectives. During the year we had the opportunity to welcome several new members.

North of England's upgrading to an S&P full A rating was a highlight of the year and an independent endorsement of our focus on quality in all areas. It is pleasing to note that the upgrading was achieved during a period when the downgrading of Clubs is the prevailing trend.

The full A rating has been a long-standing goal. It is difficult to earn and it will be just as challenging to retain. We have satisfied the capital requirements for this rating for several years, but Standard & Poor's decision to upgrade North of England was based on factors which extend far beyond purely financial considerations. Consistent service excellence is also crucial. The Club's Board takes the view that a full A rating validates North of England's strategy for managed growth – that is, growth with no dilution of service.

It may seem strange to describe 2004-05 as a year of consolidation, given an increase of over 8% in the Club's entered tonnage. Consolidation, however, is a word which is often misunderstood. The dictionary definitions include "to strengthen or improve". The Club certainly became stronger during the year, both financially and in terms of tonnage entered. Consolidation, in North of England's context, is a dynamic and highly positive process.

Service excellence is the key. We believe that everyone at North of England has an important personal contribution to make to service performance. We also seek a closer dialogue with our members, given the people-driven nature of the Club's activities. If we keep these points very firmly in mind at all times, we will succeed in our efforts to retain the full A rating. We should not rest on our laurels, or underestimate the challenge. Retention of that rating will require considerable discipline.

The broad objective is to foster North of England's evolution as the preferred P&I provider. It was pleasing to receive so many positive responses to the upgrading from our members, including many who have been with the Club for some years. The outcome of the renewal was also encouraging. North of England emerged stronger than ever. Most members accepted the case for a 12.5% general increase (although it is always important to present reasons for an increase). Premiums have risen for some years in succession. The reasons include increased shipowner liabilities, increasing claims costs - induced in part by high freight markets and commodity prices – lower investment income and persistent dollar weakness. The statistics demonstrate the general trend across the P&I community. Claims recorded by the major Clubs rose by 16%, in 2003/04 with pool claims estimated at over US$200 million – one-third up on expectations.

NORTH OF ENGLAND'S EXISTING MEMBERS CONTINUED TO DEMONSTRATE THEIR CONFIDENCE IN THE CLUB BY ENTERING MORE SHIPS DURING THE YEAR.

North of England's existing members continued to demonstrate their confidence in the Club by entering more ships during the year. As for the new members welcomed during the past year, they share North of England's core values. Each was accepted only after the Club was fully satisfied that its exacting standards were met and that the culture of Club and owner were compatible. There must always be confidence and respect on both sides.

Over the past year good progress was made towards the goal of technical balance. The latest renewal offered a further opportunity to continue our programme of membership enhancement. We estimated that over 600,000 GT would not be offered renewal terms and this proved to be an accurate forecast.

There are many dimensions to quality, including the need for a highly proactive loss prevention strategy. North of England remains convinced that a determined Club can contribute to claims avoidance, through well targeted loss prevention initiatives. Whilst all Clubs are understood to have experienced an increase in the number of high value claims in recent years, this is no excuse for defeatism. Indeed, it demonstrates the need to redouble our risk management efforts.

North of England has a long-standing reputation for excellence in loss prevention. This commitment will continue, but with a significant change of emphasis towards direct assistance for members encountering specific problems. The Club will continue to provide general loss prevention guidance for the membership as a whole, but we are determined to do more to overcome problems experienced by specific fleets. This change of focus is important as it offers enhanced service to members and harmonises with the core values of mutuality.

Some fleets have experienced rapid expansion in recent times and this presents fresh challenges. New demands require larger management teams and more sophisticated technical infrastructures within a shipowners office. In some instances the Club can play a useful support role, by providing guidance in critical control areas relating to safety and loss prevention. It is not for the Club to tell people how to run their ships, but North of England does excel in working with members to identify, define and resolve problems.

The Club's Board of 29 shipowner Directors wish to see North of England continue as a leader in the field of marine risk management.

There were two additions to the Board during the past 12 months. We welcomed to the Board Meng QingLin (Dalian Ocean Shipping Company) and Anders Schmidt (Clipper Group).

North of England's distinct personality will continue to be nurtured, especially its unusual ability to identify with members. The Club's shipowner Directors play a crucial role in this area. Members of the Club's Board are active and often forthright in expressing their views. They provide clear guidance on strategic issues with both internal and external dimensions, including matters relating to the International Group of P&I Clubs. North of England remains an enthusiastic supporter for the further development of the International Group's role.

THE NEED FOR LEADERSHIP

Turning to external matters, the trend towards criminalisation is a matter of increasing concern. This industry must get the message across that criminalising those involved in accidents - simply because they happen to be in the wrong place, at the wrong time - just doesn't make sense.

North of England shared in the industry's dismay at the European Parliament's

HIGHER CREW COSTS SHOULD BE ACCEPTED AS PART OF THE BROADER DRIVE FOR IMPROVED QUALITY.

decision, taken earlier this year, to back criminal sanctions – including imprisonment – for those caught up in marine accidents and spills. The European Union (EU) appears determined to step beyond the boundaries of the United Nations Conventions of the Law of the Sea (UNCLOS) and MARPOL conventions. The International Group of P&I Clubs should continue to support industry opposition to the proposed EU Directive. Today's failure to fight criminalisation and unwarranted regulation only encourages the spread of draconian measures against owners and seafarers. It is time to take a stand. There are limits to the International Group's ability to lobby directly, but all Clubs should now throw their full weight behind a shipowning campaign for fair treatment and common sense.

INTERTANKO's April 2005 statement on criminalisation summed up the industry's view: "Any criminal offence of pollution from a ship must be clearly defined and in accordance with international law. Any penalties imposed on someone found guilty of such an offence must be proportionate. There should also be parity with any penalties imposed for pollution from land-based sources. Any suspects must be treated fairly, impartially and in accordance with international law on human rights".

If the principles of justice are to be upheld, the EU must think again and, in doing so, acknowledge the primacy of international conventions such as UNCLOS and MARPOL.

April also saw UK Chief Inspector of Marine Accidents Stephen Meyer issue a stern warning on safety. He drew some sharp contrasts between the shipping and civil aviation sectors' approach to safety. Noting that the International Civil Aviation Authority "has an overriding interest in safety in the air", he observed that shipping's safety systems have a "highly convoluted, if not archaic, structure". The message was clear: "Commercial interests have a significant influence in our industry where absolute safety should be paramount."

North of England agrees that safety must take precedence. The answer to substandard shipping, however, is not to be found in full-scale revision of long-standing pollution compensation instruments. The Civil Liability Convention (CLC) and Fund Convention are successful systems and much of the criticism of the existing regime is ill-founded. Nevertheless, the International Oil Pollution Compensation Fund (IOPC) is now examining the case for a major revision of CLC in the light of recommendations made in an Organisation for Economic Co-operation and Development (OECD) report on insurance capacity post-Prestige. The Clubs maintain that there is no justification for increasing the current CLC limit of around US$100 million. Alternatives have been proposed, involving possible sharing of "Third Tier" liability and a general increase in CLC limits. In addition, the International Group Clubs are considering the introduction of harmonised condition surveys and special inspections for tankers aged 10 years and over carrying heavy oil as cargo. P&I Clubs may have no enforcement function (and should not attempt to develop one), but there are some fundamental issues still to be addressed.

Information-sharing is at the heart of the matter. The increase in the number and cost in major claims over recent years is an experience shared by all Clubs. It seems logical to counter this trend through more effective sharing of information.

North of England recorded 11 claims with an estimated cost of US$1 million and over in 2002-03. This rose to 21 the following year and 23 in 2004-05. Although it is anticipated that a significant number of these claims will ultimately result in liabilities below US$1 million it is still very disappointing, given our continued heavy investment in loss prevention. Such an outcome can be disheartening for those in the business of managing risk. All too often, the difference between a major collision and superficial damage amounts to good fortune as much as anything else!

Few accidents can be attributed entirely to "natural perils" or "Acts of God". Cause is usually closer to home. Above all else, the issue of crew quality deserves greater attention. Finding good quality seafarers is always a challenge; keeping them is another. Have regulations on manning levels gone too far? Does the mere act of compliance in this vital area now suffice, given the sheer intensity of modern vessel operation, the stress of navigating in heavily trafficked waters and ever-growing reporting burdens? In short, are we asking too much of our seafarers?

Higher crew costs should be accepted as part of the broader drive for improved quality. Never has investment in people made better sense. If we want to develop a more positive industry profile, there is no better place to start.

ROLE OF THE INTERNATIONAL GROUP

North of England believes that the International Group of P&I Clubs should receive the resources, to allow it to expand its activities on behalf of shipowners. The pace of change within the shipping industry is accelerating. There are new agendas, demanding faster and more effective responses. Work at this level should be coordinated with the activities of other organisations representing the industry. Strategy, at the International Group level, must be forward-looking. Powerful arguments need to be marshalled and delivered in an effective and timely manner. An obvious first step would be to recognise that public affairs and political lobbying are disciplines which require expert input.

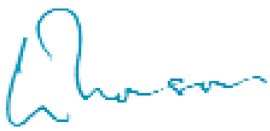
In forging a stronger sense of its own identity, the International Group will be better placed to tackle the very serious matters now confronting both Clubs and members. Traditionally, P&I Clubs have been reluctant to engage with issues lacking a direct connection with shipowner liability. Times have changed. Isolationism is a luxury that the international P&I and shipowning communities can ill-afford.

Any representative body failing to accept this new reality will leave a dangerous gap in the industry's defences. It should be appreciated that there is now very little of consequence which, ultimately, does not fall within the scope of shipowner liability. Indeed, virtually all important matters facing owners today have a significant liability dimension.

During the first quarter of this year INTERTANKO Chairman Stephen van Dyck urged shipowners to fund an aggressive lobbying campaign, to protect the industry's long-term interests. He said that shipowners made estimated profits of US$80 billion in 2004, then contrasted this to the US$70 million budgeted for all shipping industry associations worldwide. He cited the pharmaceuticals giants, who commit between 1% and 5% of revenues (not profits) for the protection of image and political turf. He then warned that, partly as a result of shipping's under-funded lobbying and public relations efforts, regulation is now moving away from the international model and "going local around the world".

The writing is on the wall. If shipping is to improve its public profile, it must accept the case for substantial investment in a programme of change, centred on quality seafarers, excellence in ship management and good communication.

Finally, during the year I have received steadfast support from my Vice Chairman Albert Engelsman, my fellow directors and the Club's managers. I would like to take this opportunity to thank them all for their support throughout the year. I believe that the dedication and commitment of the directors and managers means that North of England is ideally placed to face the rigors of the future. I am certain the Club will continue to thrive and develop.



Bill Thomson
Chairman
July 2005

STRATEGY

A FIRM FOCUS ON QUALITY

Standard & Poor's (S&P) upgraded North of England's rating during the first quarter of 2005. This full A rating independently verifies North of England's success in managing the significant growth achieved in recent years. It also recognises the Club's financial strength and stable outlook. North of England intends to continue to produce positive financial results.

North of England is progressing towards its central objective: technical underwriting balance. Whilst the Club's financial position is enviable, there is still work to be done. The aim is to entrench North of England's position amongst the top-rated Clubs. It remains essential to maintain appropriate premium levels. There have been successive increases in recent years but balance must be achieved between premium income and claims costs, with due allowance made for P&I's inherent volatility.

20 February is the traditional benchmark of the P&I year but North of England prefers to regard the year as a whole. There is a great difference between attracting owners of quality, throughout the year, and simply adding tonnage for the sake of it. Around 1 million GT left the Club at renewal but the portfolio showed net growth of some 4 million GT over the 12 months.

Whilst there were many positive developments during the year, the claims situation remained a major concern. The International Safety Management (ISM) Code has had a beneficial impact on claims, yet these effects are masked by rising claims costs. Many factors contribute to this trend, including an unprecedented period of high freight rates and strong growth in commodity prices. It is probable that this situation will eventually stabilise, following a downturn in the markets, but this will have no influence on the realities of vessel operation in an increasingly litigious world.

North of England's strategy continues to be firmly focused on quality, in all its many aspects. At the membership level, the Club seeks a close partnership with those who really care about their ships.

This provides a context for North of England's programme of managed growth, rather than the arbitrary pursuit of additional tonnage regardless of quality. Managed growth defends and enhances portfolio quality, ensures no dilution of high service levels and respects the core principles of mutuality. One of these principles is the maintenance of a well-balanced portfolio. Whilst North of England's membership includes a growing number of large owners, the Club continues to welcome small to medium owners who also share a culture of safety, quality and efficient management of risk.

AN INDUSTRY TRANSFORMED

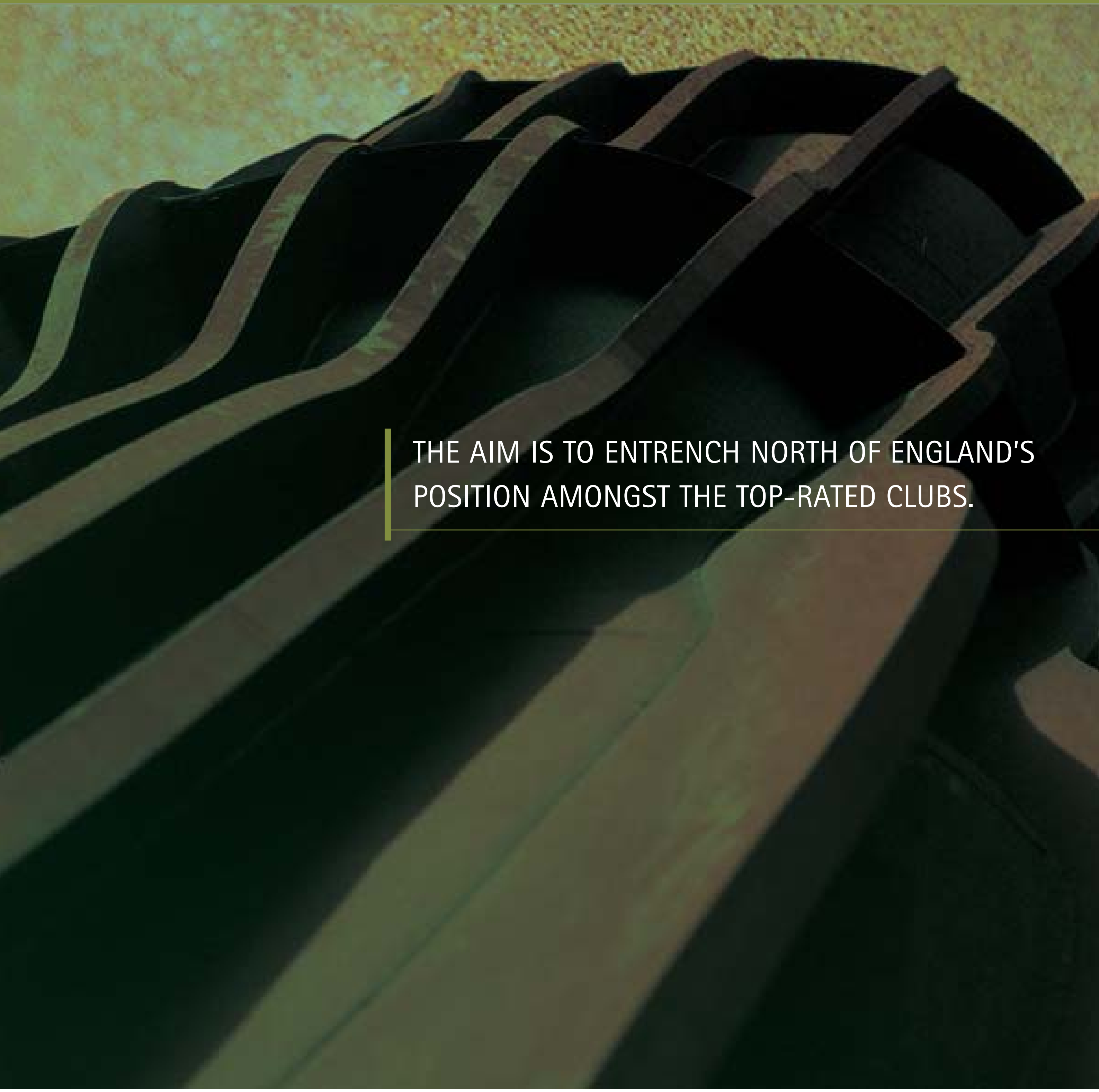
Forces now at work are resulting in some profound changes within the international shipping community. One change relates to the definition of exactly what is meant by the phrase "small to medium owners". These members now tend to operate larger fleets. High freight markets have pushed the entire industry's capitalisation to unprecedented levels. There have been boom periods in the past, but this upward trend in the cycle is different in one important respect – the relatively low debt levels. This suggests that the eventual downturn, whenever it occurs, will be largely free of highly-leveraged casualties. What can be expected is further rationalisation and the dawn of a new and highly active phase in the development of corporate shipping.

At a superficial level this could be perceived as a challenge to North of England, as the Club was founded – and has prospered – on a concept of highly personalised service. North of England does not cling to a romanticised view of shipping, but it sees no inherent conflict between personal service and the rise of the corporates. On the contrary, insurance and shipping will remain a "people business". There is no reason why North of England should not continue to serve all owners of quality shipping – including the large corporates – to equal effect. Indeed, these changes in the industry's structure offer the Club an exciting prospect. It is a stimulus to develop new frameworks to serve a revitalised shipping industry.

From the Club's perspective, an attitude biased towards quality is far more important than an owner's size. Genuine commitment to quality soon becomes evident as a close relationship develops between Club and member. An intimate understanding of members and how they operate is essential. An atmosphere of trust makes it easier for the Club to propose or assist in efforts to achieve common risk management objectives. This process, above all else, is about people and the interaction between them in the pursuit of a common endeavour.

A SENSE OF OWNERSHIP

Many of North of England's objectives for the coming year and beyond relate to the consolidation of the full A rating. One priority here is the maintenance of the strongest possible service ethic. New employees who join the Club's organisation from the world of general insurance are often surprised by the degree of emphasis placed on personal contact with Club members. They soon become accustomed to this service ethic



and find the approach refreshing. The Club will continue its campaign to raise awareness of the fact that every member of the North of England team has an important personal contribution to make to the delivery of quality service.

This fosters a healthy sense of ownership – a powerful motivating force.

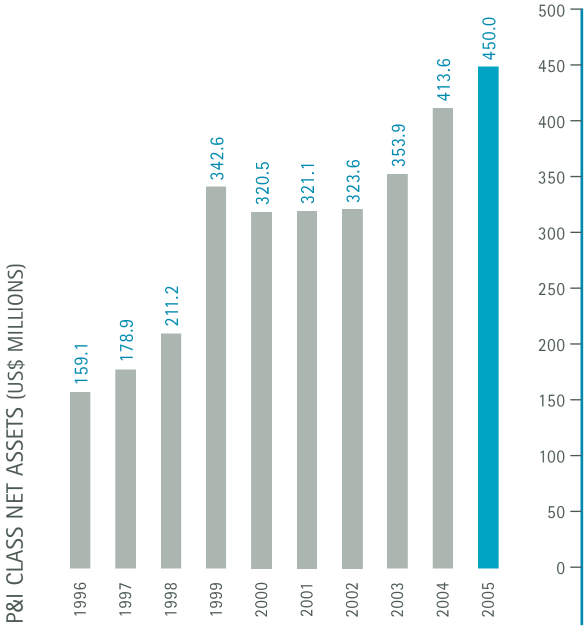
North of England's membership now well exceeds 50 million GT. The Club expects growth to continue in the coming years. It is confident that further expansion can be accommodated with no dilution of service quality. The aim is to position North of England firmly within the ranks of the three strongest members of the International Group.

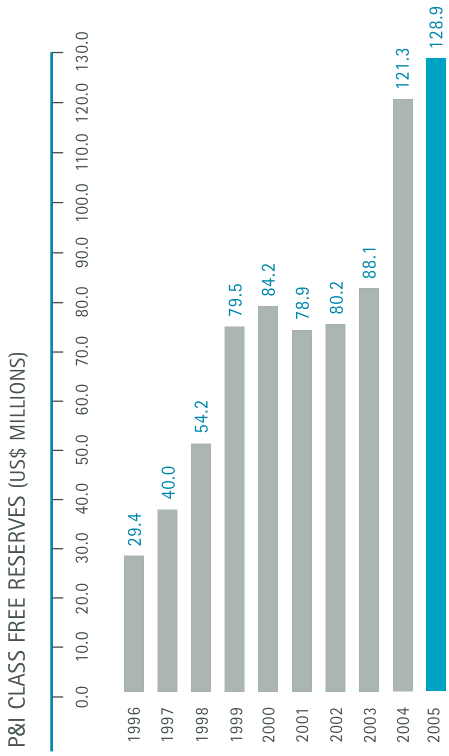
FINANCES

BALANCING PREMIUMS AND CLAIMS

North of England's free reserves increased by 6.6% over the year, rising from US$133.5 million to US$142.3 million. The Club's financial strength has shown considerable improvement over recent years. It has achieved 14.5% compound average growth over the 1998-04 period, as against the International Group's negative 5.4%.

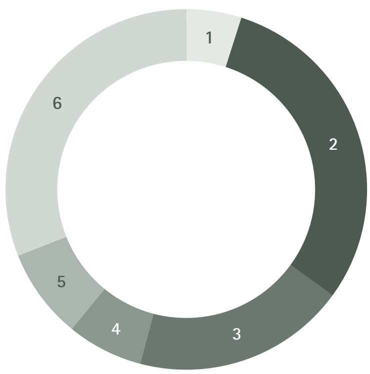
- Combined ratio trending below 110%
- Investment income totals US$20.1 million
- P&I class investment return of 5.1%





The P&I class free reserve increased by 6.2%

INVESTMENT PORTFOLIO AT 20 FEBRUARY 2005



1	Cash	5%
2	Up to 2 years	30%
3	2 to 5 years	19%
4	5 to 10 years	7%
5	Over 10 years	8%
6	Equities	31%

The equity content of the P&I class investments increased to 31% with 69% in bonds and cash.

North of England's total free reserves (P&I, FD&D and War) increased by 6.6% during the year, to US$142.3 million. P&I class free reserves rose by 6.2%, to US$128.9 million. P&I class net assets increased by over US$36 million, to US$450 million. Growth over the year was generally satisfactory. At the same time it was on a more modest scale than in the preceding 12 months, when investment income was boosted by the strong recovery in world equity markets.

P&I class investment income totalled US$20.1 million. The return of 5.1% matched the benchmark index and was just ahead of the 4% budgeted. This was a significant fall, however, on the US$53.4 million (14.1%) return achieved in the preceding year. The FD&D portfolio, consisting of bonds and cash, yielded US$1.25 million, a 4.52% return and was ahead of the benchmark 4.21%.

In terms of investment performance it was very much a year of two parts. Equities performed poorly until August, when a vigorous upturn commenced. Bond markets were volatile and performed against expectations. Traditionally, bond values fall in response to interest rate rises, but it was not the case in this instance. Unusual behaviour in the bond markets may indicate some deep-rooted misvaluing.

As at 20 February 2005, the P&I class investment portfolio totalled US$443 million, with 41% in bonds, 31% in equities and 28% in cash and cash equivalents. Our essentially defensive position continued, with preference for short-dated instruments and cash equivalents, in anticipation of a return to more conventional behaviour in the bond markets. It is to be hoped that equity markets will perform positively and compensate for negative trends in other areas. With this in mind, the equity share of the portfolio will be enlarged, to around 35% which we believe to be an appropriate response in current circumstances.

North of England made some changes to bond portfolio management arrangements during the year. Western Asset Management and Credit Suisse First Boston were appointed, succeeding Lazard.

Turning to the Club's position overall, the 2004-05 policy year has an estimated initial deficit of US$29.5 million, but it is likely to reduce over time. The 2003-04 policy year had an estimated deficit of US$33 million at 20 February 2004 which subsequently improved to a deficit of US$11 million at 20 February 2005. The 2002/03 and the 2003/04 policy years are ultimately expected to breakeven. The Club's combined ratio (premiums against costs) reduced from 116% in 2003/04 to 110% for the 2004/05 financial year.

REALISTIC UNDERWRITING

North of England intends to continue its progress towards technical balance. Realistic underwriting is the key to this important goal. It is not by chance that the Club's five key financial principles are;

- Prudent and cautious underwriting
- Careful and conservative claims reserving
- A low risk investment strategy, based on capital preservation
- Comprehensive and highly secure reinsurance
- Close monitoring of management expenses

North of England's future will be shaped by strict adherence to these principles, to further enhance the Club's financial strength.

These core principles closely mirror Standard & Poor's recent observations, made when the Club was upgraded to full A rating: "Standard & Poor's considers that North of England's estimating and reserving practices are very conservative by insurance industry standards. Standard & Poor's believes that North of England's out-performance can be attributed to the Club's firmer underwriting of risk, superior member/vessel selection, low expense base (one of the lowest in the International Group) and good long-term investment performance."

FUTURE PROSPECTS

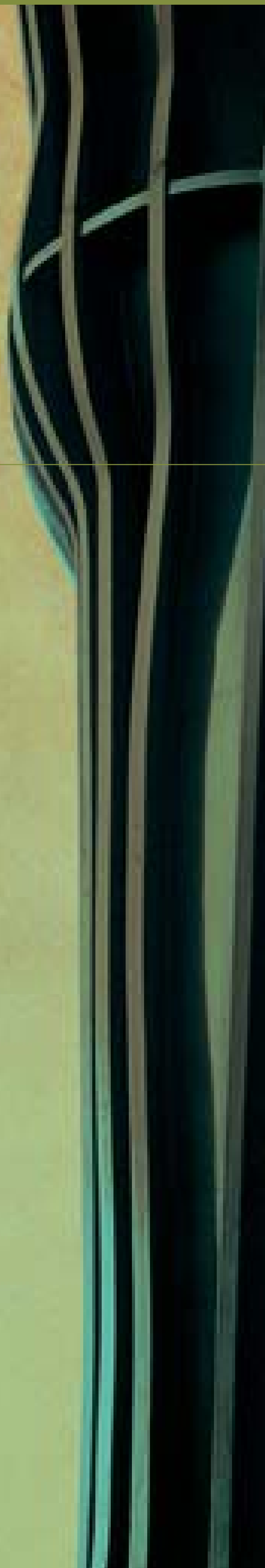
The Club's free reserves and entered tonnage are at record levels. Claims costs, however, continue to rise. All Clubs share this concern. Pool claims for the year are approaching US$200 million, as against the US$150 million budgeted. This is one of the highest aggregate values for many years. Furthermore, the Clubs' investment income is in decline. This only reinforces North of England's determination to balance premium income and claims costs, free of reliance on a volatile second income stream.

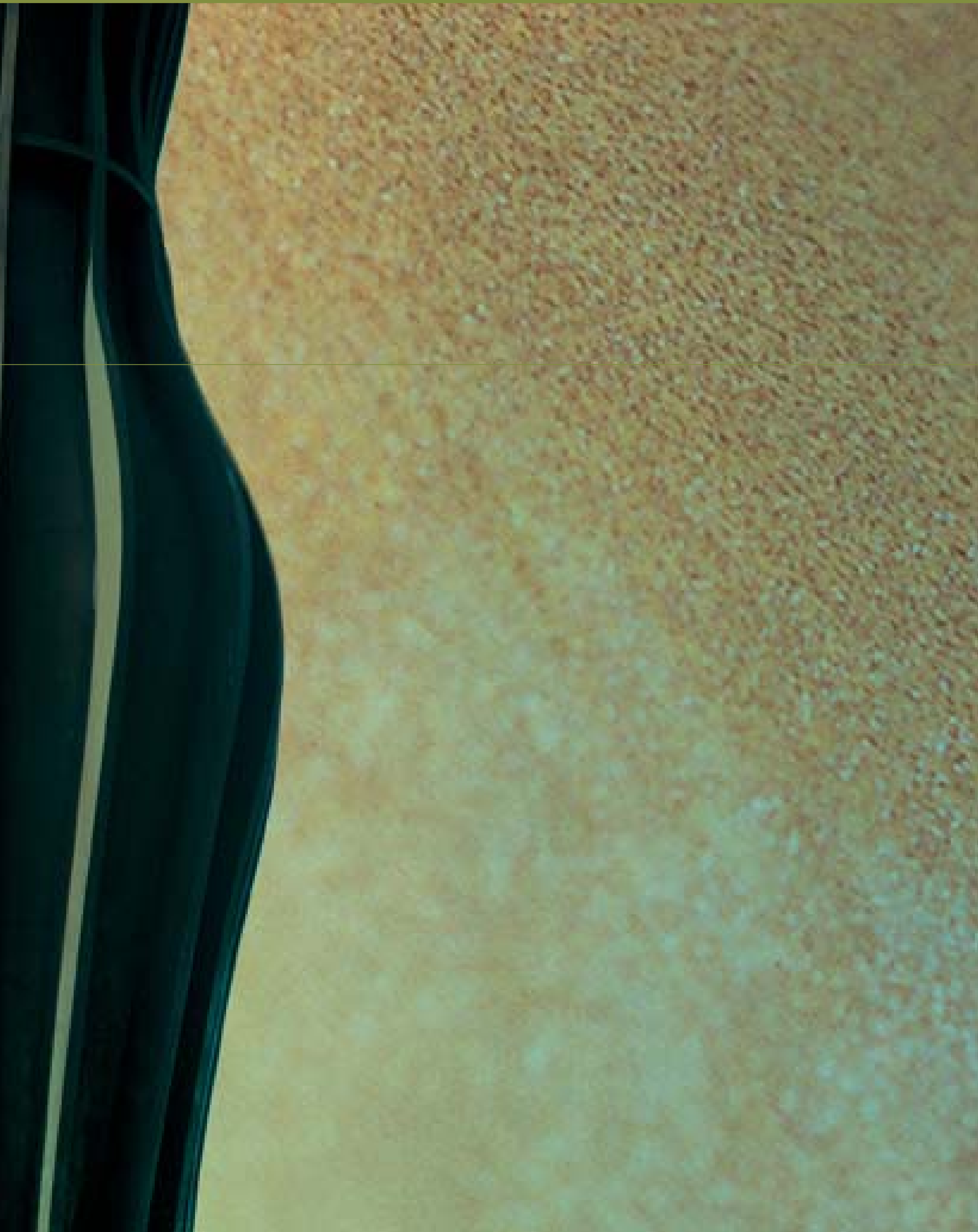
Other negatives confronting the P&I community include the persistent weakness of the US dollar although market sentiment has recently changed. This inflates operating expenses.

In summary, the outlook is influenced by claims inflation, increasing shipowner liability and the long-term erosion of premium income which results from "churning" (the replacement of existing vessels by new tonnage). New vessels initially tend to produce less premium income on a per tonne basis.

Given these trends, enhanced solvency requirements and the Clubs' continuous exposure to large, random losses, further increases in P&I premium are inevitable. In a climate of growing shipowner liabilities, it is essential to set premiums at levels which contribute to a breakeven operating result over the medium term.

NORTH OF ENGLAND INTENDS TO CONTINUE ITS PROGRESS TOWARDS TECHNICAL BALANCE. REALISTIC UNDERWRITING IS THE KEY TO THIS IMPORTANT GOAL.





REINSURANCE

HIGHER RETENTION LEVELS

Two major developments took effect on 20 February, 2005. The International Group's new cellular captive, Hydra, commenced operations. In addition, the individual retention of the Group Clubs increased from US$5 million to US$6 million.

INTERNATIONAL GROUP REINSURANCE STRUCTURE 2005/2006

Overspill		Liability (shared by pool)		4,250 (approx)
Layer 4	500m	One reinstatement		2,050
Layer 3	500m	Unlimited reinstatements		1,550
Layer 2	500m	Unlimited reinstatements		1,050
Layer 1	500m	75% Unlimited reinstatements	25% Co-insurance	550
Pool retention	44m			50
Club retention	6m			6

US$m (from the ground up)

There are three elements to North of England's reinsurance arrangements. Claims of up to US$6 million are protected by true risk transfer contracts with Swiss Re. The pool then has shared responsibility for claims between US$6 million and US$50 million. The International Group reinsurance contract covers claims for a further US$2 billion.

There is a view within the International Group that the Clubs should adopt a more inclusive posture on risk. This reduces reliance on commercial providers, where it is in the interests of mutuality to do so. Accordingly, individual Club retention has increased from US$5 million to US$6 million and the Bermuda-based reinsurance captive Hydra has been established.

Hydra commenced operation on 20 February of this year. This followed the International Group's decision to increase pool retention from US$30 million to US$50 million (an increase which took effect 12 months earlier).

Hydra allows North of England and the other International Group Clubs to mutualise more risk and reduce their dependence on the reinsurance markets. Hydra also replaces the designated reserves system which, previously, secured liabilities within the pooling system.

Higher retention means that the International Group membership can retain more of the benefits of the pool's excellent loss record under the reinsurance programme. Hydra consists of a series of ring-fenced cells allocated to each International Group Club. This captive participates in both US$20 million excess of US$30 million and the International Group's co-insured 25% vertical slice of the first layer of the Group's excess of loss contract (covering claims between US$50 million and US$550 million).

CLUB RETENTION INCREASES

The International Group's decision to increase individual Club retention from US$5 million to US$6 million was also implemented on 20 February. There is a view that higher retention encourages disciplined underwriting. Strict underwriting strategies and a quality membership, however, can offer no guarantee of freedom from pool claims.

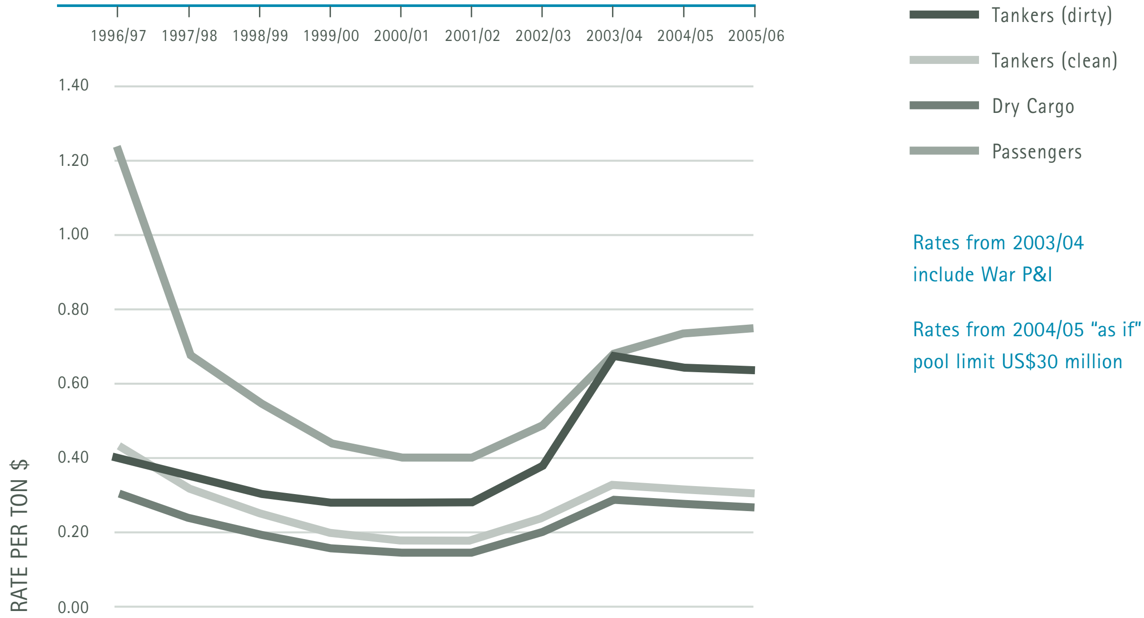
Charterers Reinsurance – as part of an integral support for the International Group, the Club continues to reinsure its charterers risks via the International Group charterers reinsurance facility which has been considerably streamlined this year and which offers members the benefit of International Group reinsurance security.

War Risks – this year the limit for excess P&I war risks provided by the Group's reinsurance has increased to US$500 million from US$400 million last year and this continues to be excess of hull value. It continues to be a requirement that normal war risks coverage which would include coverage for both hull and P&I up to the ship's proper value is placed, and therefore the Group's programme is additional to and not a replacement for members' usual war risks coverage.

Bio-Chem Risks – the reinsurance market has over the last few years excluded

bio-chem risks from virtually all war risks and non war policies. The logic in relation to non war policies appears to be a concern that a disaffected employee may use biological means to cause damage. Whilst this risk is remote and is not excluded by Club rules nor the International Group's nonwar reinsurance programme, there is an exclusion under the International Group's excess P&I war risks reinsurance. In view of this both last year and this year the International Group has constituted a pool for bio-chem war and terrorism risks, which will provide cover up to US$30 million (last year this figure was US$20 million). It is important to note that the bio-chem pool will only provide cover for certain risks in particular crew claims and legal expenses incurred in investigating or defending claims which arise out of other covered P&I risks.

INTERNATIONAL GROUP EXCESS



Rates from 2003/04 include War P&I

Rates from 2004/05 "as if" pool limit US$30 million

MEMBERSHIP

MANAGED GROWTH AND ENHANCED QUALITY

North of England's P&I book consisted of over 2,750 vessels of 54 million GT at the conclusion of the February 2005 renewal. The portfolio of owned tonnage increased by nearly 9% over the year, whilst the chartered tonnage book, at 10 million GT, was stable. The Club now has 300 member groups. The managed growth of North of England's portfolio by nearly 4 million GT over the year was achieved despite the departure of around 1.1 million GT, including a significant volume of tonnage not renewed as a result of the Club's membership enhancement programme.

North of England's expansion during the year was spread geographically across the world regions. The portfolio also remains well balanced in terms of tonnage type. Bulk carriers represent 38% of the book, followed by tankers at 29% and container vessels at 20%. There is also balance in the sense that no one member is in a position to exert undue influence on the Club's strategy and direction.

Following the trend of recent years, the number of member groups declined to 300, over the year to 20 February 2005. Vigorous organic growth was a particular feature of the year. A number of members took the decision to enter more ships with the Club.

North of England regards renewal as a 12-month process, rather than a six-week "seasonal activity". During the year the portfolio showed a net gain of nearly 4 million GT. This gain was achieved despite the departure of over 1 million GT (including a significant proportion not offered renewal at February 2005).

The year's outcome can be summed up as follows: further consolidation, an upgraded rating (which accurately reflects the Club's strength), enhanced membership quality, substantial organic growth and the entry of new members of quality.

North of England's P&I portfolio has more than doubled in size over the past seven years. The Club's success in managing expansion was verified in early 2005 by the award of a full A rating. North of England is now one of only four Clubs with an interactive A rating.

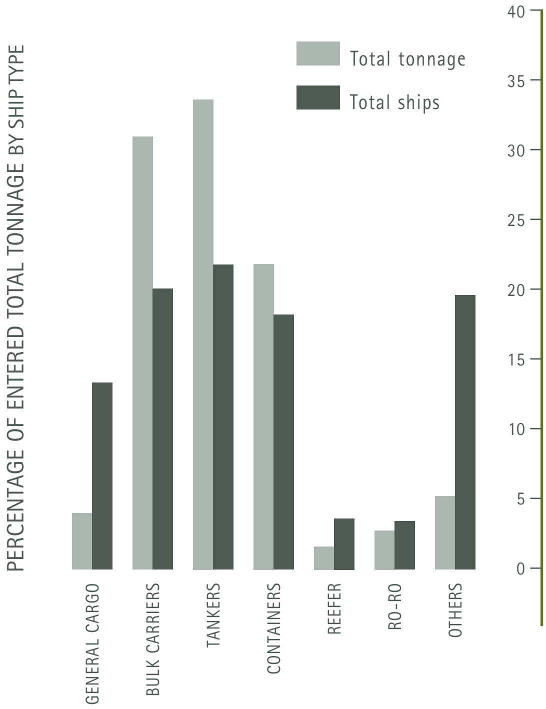
THE CHANGING SHIPPING LANDSCAPE

North of England is in a strong position to benefit from the changes now unfolding in the shipping industry. The shipping landscape is evolving at a rapid pace. This is likely to continue, even when the current intense period of industry capitalisation passes. One of the more obvious trends is the rise of corporate shipping.

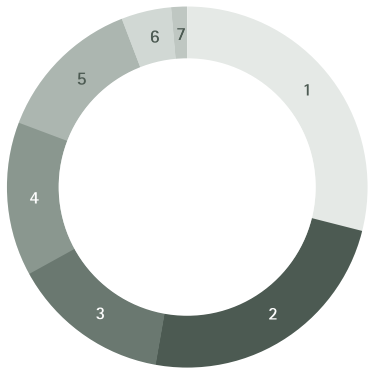
These changes are already reflected in North of England's portfolio. The Club continues to welcome owners of all sizes, provided they share North of England's ethos of quality. This commitment to quality is the common denominator, regardless of whether the member is a traditional private owner, of small to medium size, or a large corporate. At the same time the forces of change are redefining "small to medium".

North of England is now a leading contender for the provision of P&I cover for larger fleets. At the same time, the Club retains its traditional affiliation with traditional private owners of quality. It is interesting to note that two of North of England's largest current members entered only a small number of ships when they opened their relationships with the Club. Over the past decade, however, these owners have enjoyed significant growth and this has been matched by the expansion of their entries with North of England.

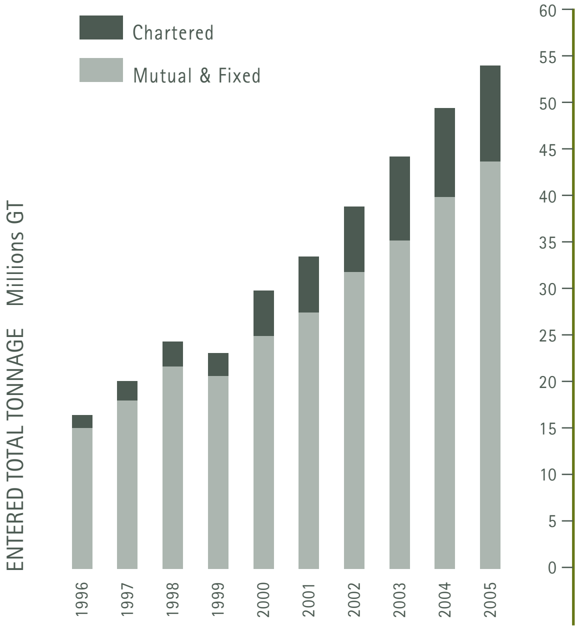
Any attempt to define an "ideal" North of England member is a challenge, but it is possible to identify some important elements. Quality is the first priority and this will be reflected in a good claims record. Major indicators of quality include investment in risk management systems and high quality sea staff. The quality owner is likely to have close relationships with leading charterers and a robust strategy for making further progress in the market. North of England will always welcome owners who value a Club with a complementary approach to quality.



TOTAL ENTERED TONNAGE
(BY AREA OF MANAGEMENT)



1	Northern Europe	29%
2	Southern Europe	24%
3	Middle East	14%
4	Far East	14%
5	Scandinavia	13%
6	North America	5%
7	Others	1%



P&I CLAIMS

CLAIMS VALUES CONTINUE TO RISE

Shipping markets have trebled in recent times. Whilst there may be differing views over the impact on claims incidence and costs, few would be prepared to dispute the view that boom markets do exert some degree of negative influence. This factor is aggravated by the steady growth in the scale and spread of shipowner liabilities and increasing concerns over crew quality and the many human factors which contribute to major claims.

The current claims situation can be summed up with precision: little change in the overall profile of claims, a modest fall in claims numbers and significant growth in claims costs. North of England, together with other members of the International Group, faces a disturbing rise in both the number and cost of major claims, especially Admiralty type claims.

International Group Club Pool claims, which are likely to be more than US$200 million, far exceeded budget. The most significant claims now facing the pool consist of two incidents in the US$100 million category: the Selendang Ayu, in Alaskan waters, and the 'Athos 1', which occured in the Delaware River.

The relatively high incidence of collisions is a particular concern. There were 108 collision claims during the year, with a combined estimated value of US$21.5 million, as against 92 totalling US$10 million in the preceding year. The largest collision-related claims cost in the preceding year was US$2.6 million.

High freight markets tend to inflate claims. Costs associated with loss of hire have soared over the past year. Consequential losses which previously might amount to US$50,000 under other circumstances may now be as much as US$200,000.

Much has been done to raise awareness of sound procedures for safe navigation, yet the claims caseload still includes examples of "radar-assisted" collisions. Some incidents suggest over-reliance on GPS and technology in general. GPS appears to be a mixed blessing. Its advantages are obvious, but its very precision does have the unfortunate effect of concentrating traffic on the same motorway lane. In some busy areas, GPS contributes to heightened collision risk. A careful analysis of causal factors following some collisions indicates that GPS can "hypnotise" bridge staff, who may then largely dispense with the old-fashioned but very essential practice of looking out of the window occasionally.

The Club response to these problems is to provide more guidance and support for members' training programmes. One of North of England's main objectives is to reach the people on the ships. With this in mind, the Club recently distributed a new guide to the Collision Regulations, together with an interactive CD on the same subject.

Pollution claims during the year, were significantly less than the US$1.35 million in the preceding year. Whilst the estimated total value of pollution claims was much lower in 2004-05, just one relatively serious event can be enough to transform the picture. Such incidents can occur at any time.

Pollution-related penalties continue to increase, to levels bordering on the ridiculous in some instances. There is now a tendency to apply formulae to set penalties in relation to vessel size or other factors. One example is the new French legislation. Whilst penalties imposed so far remain within the CLC framework, a number of minor spills have resulted in penalties and costs exceeding US$1 million. Strict liability continues to gain ground. In addition, government agencies now make greater efforts to recover their costs. The UK's Maritime and Coastguard Agency (MCA) is moving in this direction. Whilst MCA's costs are modest when compared to charges applied by the US Coast Guard, they are still significant in real terms.

MAJOR CLAIMS AND HUMAN FACTORS

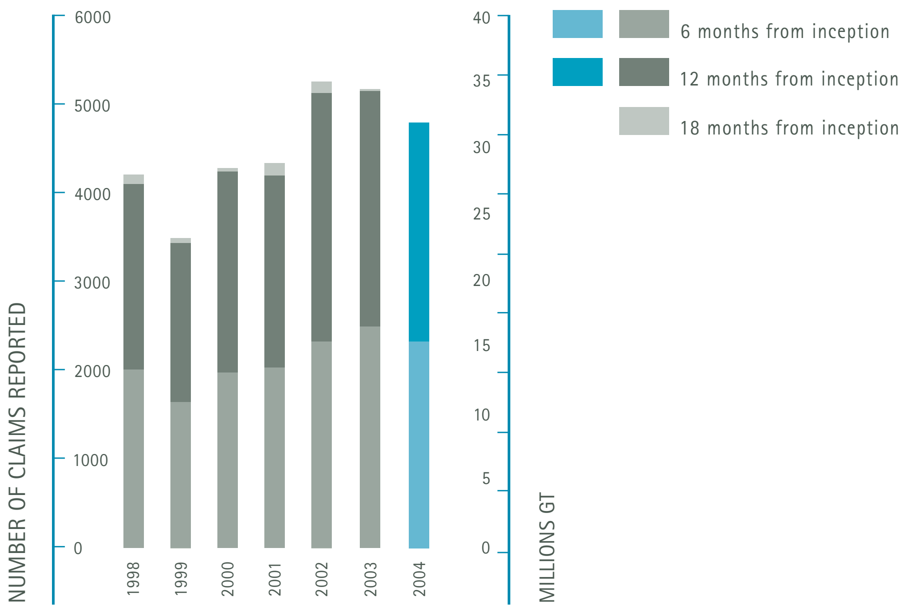
North of England is now reinforcing its dedicated loss prevention services for members. Vessel condition remains a crucial issue, but there is now a sharper emphasis on human factors, including seafarer recruitment, health, training and general awareness of shipboard best practice. There is also a growing perception that manning regulations introduced over the past two decades may be too liberal.

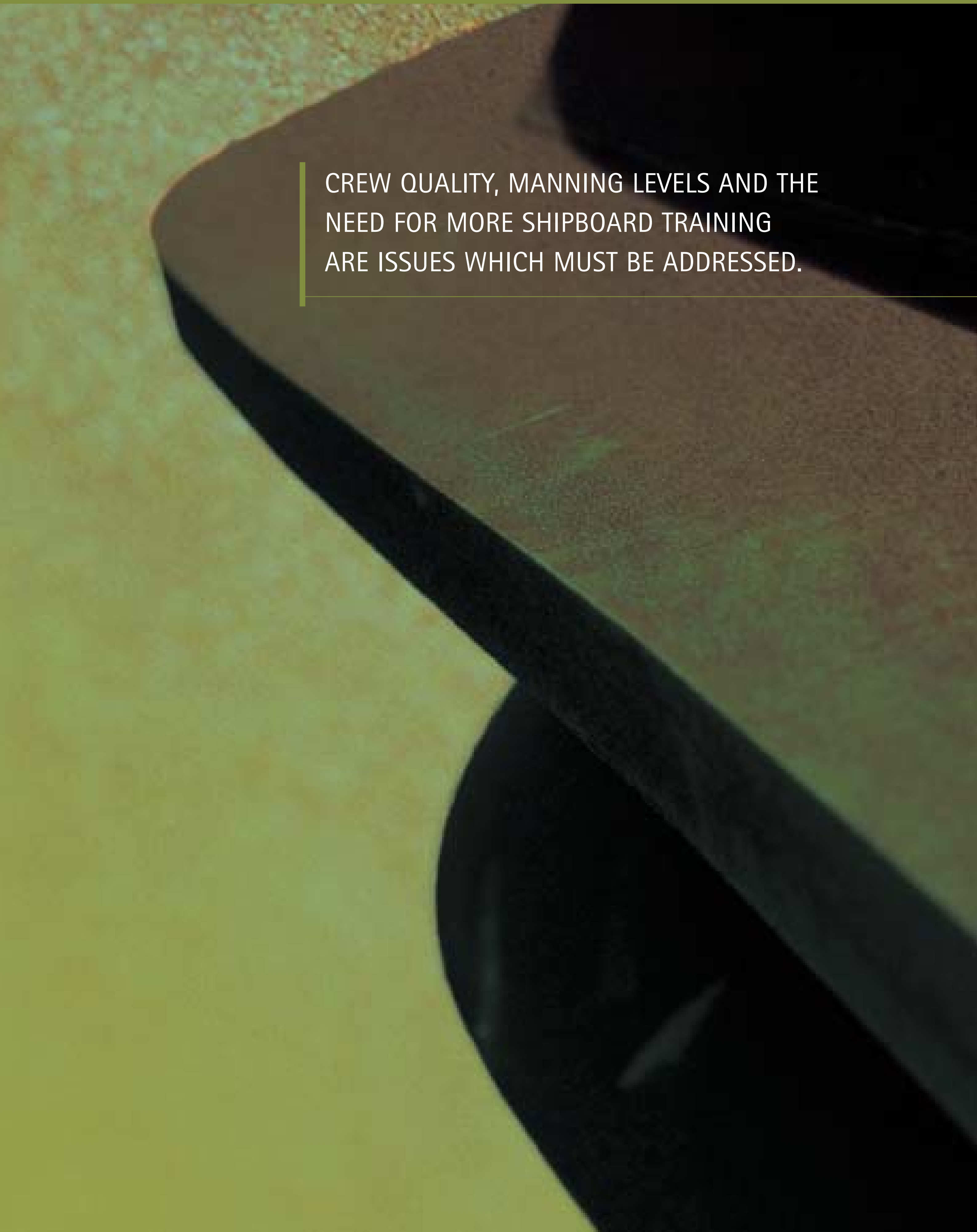
Many human factors combine to produce a level of shipboard compliance with ISM, International Ship and Port facility Security (ISPS) Code and other systems for safe and secure ship operation. The quality of the seafarers and ship management organisation has a very powerful and direct influence on a member's claims performance. Unfortunately, too many significant claims have their roots in elementary mistakes. Human error is a notoriously difficult area to come to grips with, but the current situation demands a very robust response from the industry.

P&I ONLY: NUMBER OF CLAIMS BY VALUE, EXCLUDING POOL CLAIMS
12 months from inception

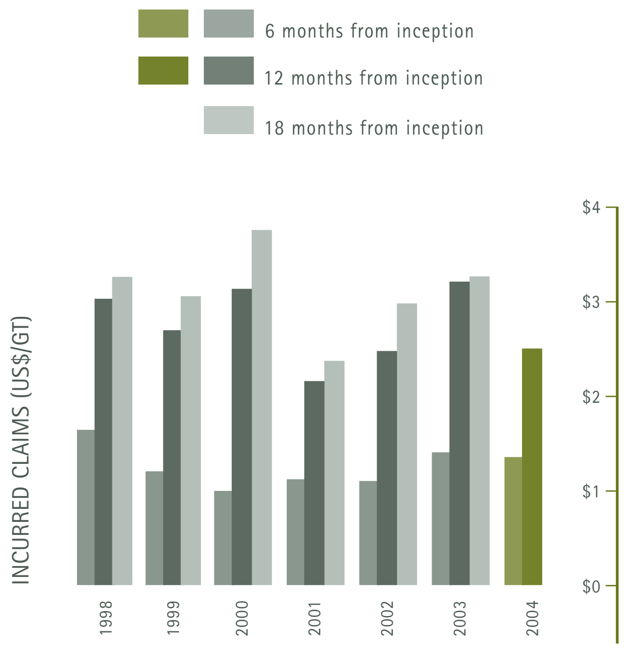
	1998	1999	2000	2001	2002	2003	2004
Over $2.0m	4	3	10	2	3	11	9
$1.0m - $2.0m	3	3	3	4	8	10	14
$0.5m - $1.0m	15	20	15	14	22	24	21
$0 - $0.5m	4,076	3,423	4,218	4,196	5,080	5,137	4,768
Total	4,098	3,449	4,246	4,216	5,113	5,182	4,812

P&I claims breakdown by value





CREW QUALITY, MANNING LEVELS AND THE NEED FOR MORE SHIPBOARD TRAINING ARE ISSUES WHICH MUST BE ADDRESSED.



Crew quality, manning levels and the need for more shipboard training are issues which must be addressed. Current regulations concerning minimum manning levels may no longer be appropriate, given the sheer intensity of modern vessel operation, particularly those on short-sea routes. It may be time to revisit these regulations and recognise operational circumstances where the demands on the individual may be excessive.

POINTERS TO THE FUTURE

The current claims picture is unlikely to improve whilst freight markets remain at such high levels. The challenge now facing the Clubs is to limit further escalation of claims costs. The major priority is enhanced crew quality. The main problem here is the global shortage of high quality seafarers. Sadly, promising young people are discouraged from joining the industry and many people serving at sea too often express the view that it is "not the job it was".

Research shows that members who provide secure employment for seafarers and work hard to achieve a high level of crew continuity produce fewer claims. Their seafarers have a good knowledge of company and ship, identify with both and display care and loyalty. A deeper appreciation of the importance of these basic human feelings is now essential.

RISK MANAGEMENT

PREVENTING LOSS

Further progress was made in developing North of England's risk management programmes. The Risk Management Department was established in 2003, by integrating the former Loss Prevention and Survey departments. There is now a new emphasis on direct risk management support for members.

Risk management has a fundamental objective: the provision of advice and assistance to prevent loss. The survey function relates to hardware – the ships – whilst loss prevention concentrates on the human issues. An integrated approach is essential for effective risk management.

In January 2005 Tony Baker succeeded Phil Anderson as Manager of the Risk Management Department. Over the past 12 months, measures have been taken to refine the Club's condition survey programme and, in parallel, to increase North of England's direct support for individual members. Meanwhile, the Club continues to provide general guidance on risk management issues.

INTEGRATED STRATEGY

A fully integrated risk management strategy must take account of loss ratios and claims records at the individual level and provide for the intelligent analysis of claims experience across the entire entered fleet. Due weight should be given to the condition of specific vessels and the timely identification of special problems faced by particular members.

With this in mind, North of England's risk management programmes operate at four levels. The first level is the provision of general advice to all members. This shares knowledge and expertise, in the interests of mutuality. This guidance is general only in the sense of distribution, as the advice is often highly specific in terms of content and its intended audience. The recently issued Collision Regulations guide, for example, is aimed specifically at bridge watchkeepers. As is often the case, this guide is part of a package of measures with a common theme. The new guide consolidates best practice, as presented in an earlier series of posters. During mid-2004, in a second level initiative, members also received an interactive CD on collision avoidance in conditions of restricted visibility.

Other initiatives over the year included a new edition of North of England's Guide to Bills of Lading. This was distributed to all members and provides a useful commentary on changing practice. In addition, the Club's quarterly risk management publication, *Signals*, together with the website, dealt with other priorities such as safe entry into enclosed spaces.

The clear link between a vessel's condition and the way it is managed is a matter of great significance. The Club projects this message at every opportunity. It is an important theme at Club workshops and seminars, which are organised for members across the world.

During the past year North of England's Risk Management Team visited over 50 members based in many parts of the world, including North America, Europe, the Middle East and the Far East. Some visits are initiated by the Club and some by members. It is not unusual for a member to request a Club briefing as part of a wider training programme for sea staff.

DIRECT ASSISTANCE FOR MEMBERS

Tailored briefings and guidance for members represent third level support, with Loss Prevention Reviews for owners representing a fourth level. Loss Prevention Reviews explore the causes of specific problems and identify solutions, with the Club working in a spirit of cooperation with the member concerned. In some cases issues are revealed by Port State inspection or by detailed analysis of claims performance.

North of England continues to provide general risk management advice. Issues currently receiving attention include ballast water management and procedures for compliance with MARPOL Annex VI emission requirements. New guidance on ventilation is also in preparation. The Club hopes that this will produce the definitive publication on this subject. In addition, more briefings and workshops are planned in Europe, the Far East and other areas of the world.

Fewer vessels of 12 years or over are now entered with the Club. Those of 12 years or more at the time of entry have undergone a pre-entry condition survey. Entered vessels involved in Port State detentions are also visited promptly, for the purposes of survey. A major change in the current year will see an increase in the Club's Loss Prevention Review programme. The aim is to help improve the claims performance of a number of members.

North of England's risk management strategy requires the continued provision of general advice and more effort to deliver targeted loss prevention guidance. These objectives require additional resources. A number of organisational changes have been introduced, including the management of the vessel survey function by two regionally focused teams. As always, the main motivation is the desire to build closer personal relationships with members and to add value to members own risk management and safety programmes.

THE CLEAR LINK BETWEEN A SHIP'S CONDITION AND THE WAY IT IS MANAGED IS A MATTER OF GREAT SIGNIFICANCE.

FD&D

PROVIDING GUIDANCE FOR MEMBERS

The number of ships entered with North of England for defence cover in 2004-05 was 1299. This represents a significant proportion of the Club's P&I portfolio underlining a high level of awareness of the readily accessible expertise of North of England's large and experienced defence team. To a large degree, growth in the defence portfolio reflects the expansion of the Club's P&I book. The Club's innovative approach to the management of defence cases remains an important factor for many ship owners when choosing North of England as their preferred provider of P&I and defence insurance.

- A current total of 1146 ships entered for FD&D
- These ships represent over 40% of the P&I book
- Free reserves increased to US$9.54 million
- Investment return of 4.5%

North of England employs a large defence team of highly qualified lawyers who offer a cost-effective service to members. A number of the team were partners in their previous legal practices and the defence class has a consistent track record of being able to recruit and retain experienced lawyers from the world's leading maritime law practices. It remains a core objective of the defence class to handle the majority of English law claims in house and without the use of external lawyers. In those limited number of cases where external lawyers are instructed the defence class retains a high level of involvement in the case as it proceeds towards a resolution.

The defence class has justifiably earned a reputation within the industry for consistently making available innovative and relevant services and products to the members. As long ago as 1989 the class formed an association with the ICC, International Maritime Bureau in London to allow members to take references upon potential contractual partners at no cost. This relationship continues with Stephen Purvis recently accepting a position as a non executive director on the Supervisory Board of the ICC-CCS (the commercial crime services division of the international chamber of commerce).

More recently the defence class was the first in the industry to make available maritime lien insurance and free writ searches to members buying second hand ships. It was also the first to offer a credit risk insurance to protect those purchasing the cover from the effects of a charterer failing during a voyage. The class remains the only provider of defence insurance, within its peer group, able to recover the costs of its in house lawyers prosecuting and / or defending claims on behalf of its members.

During the course of the year North of England published a guide to the defence services available from North of England. The guide tackles all aspects of defence class management as well as providing career details of the lawyers employed. It has been warmly received by the industry as providing much needed clarity to a complex subject.

THE EFFECT OF HIGH FREIGHT RATES

Although there has been a small increase in the number of claims registered over the previous year, the overall effect of the high freight rates has been to depress the volume of work handled by the defence class. During 2004-05 the Club recorded a total of 848 new claims, as against 789 in the preceding year. An obvious feature of the boom market is the high daily earnings of the vessels entered in the class. For the defence class this has also meant that the demand for responsive and pro-active solutions to fast developing situations has remained as high as ever. The motivation behind these enquiries (dealing with matters ranging from charterparties and bills of lading to newbuild contracts) is the desire to minimise, or better still avoid, any interruption to the commercial operation of ships entered in the class.

A notable trend during the year was the high level of enquiries relating to the duration of charterparties. With a multiplicity of different wordings establishing the end of a charter period is often challenging with considerable sums turning upon the interpretation adopted.

In the newbuild sector, yards now enjoy tremendous bargaining power due to the scarcity of slots. The demand for new ships and the increase in steel prices has seen a worrying increase in some yards seeking to extract greater commercial benefit from a newbuilding contract than they are entitled. In such circumstances costly litigation may not provide a solution to the ship owner's difficulties. This is well understood by North of England. Interestingly, some Clubs feel differently and are quite prepared to accept defence risks for newbuilding contracts while paying little or no attention to the ship owner's assessment of the commercial risks involved and choice of yard, in order to secure new P&I entries. Their appetite for risk exceeds that of North of England. The Club will continue to exercise extreme caution in this area.

An unexpected consequence of the high freight rates and active S&P market is that the number of S&P disputes has declined notwithstanding intense industry activity in this sector. It may be that as a result of the very strong demand for tonnage, buyers are more willing to accept a ship in circumstances where previously they may not have done. Factors which might otherwise have led to disputes now tend to be ignored. The club is mindful of the extent of work now needed by many recently acquired ships to bring them to a satisfactory operational standard.

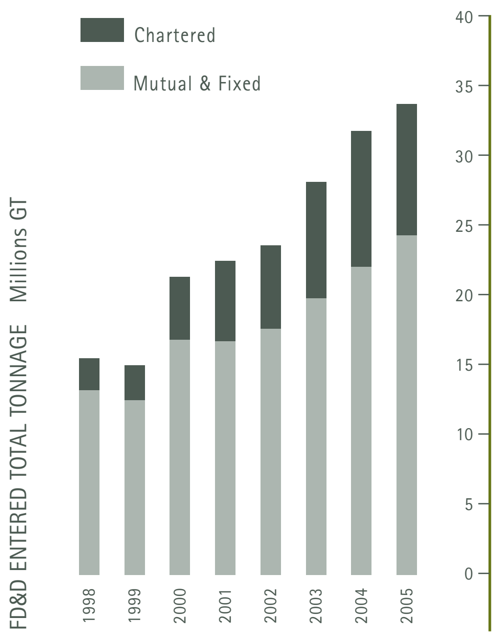
BUNKER QUALITY ISSUES

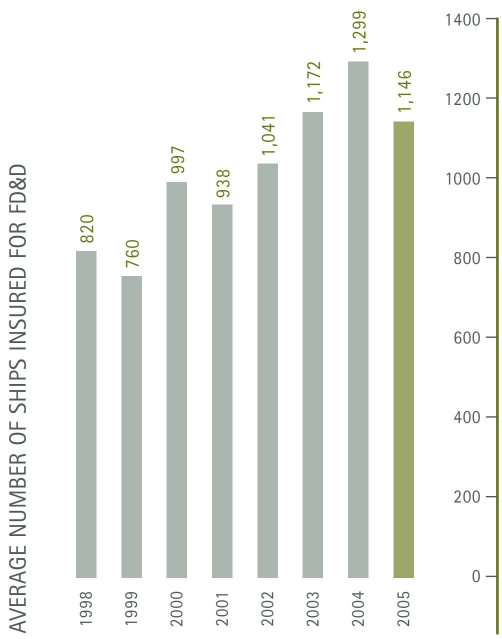
There was an increase in claims and enquiries relating to bunker quality during the course of the year. There is also widespread concern about the quality and availability of low sulphur fuels. Getting the right fuel at the right time at the right price is now a major challenge for vessel operators seeking to comply with MARPOL Annex VI emission standards.

There are also wider concerns about the general decline in bunker quality in many ports. The class has seen a pleasing increase in the use made of routine fuel sampling by ship operators. This helps lessen the impact of incidents involving poor quality fuels while at the same time equipping the ship operator with evidence essential to the successful prosecution of claims.

FD&D FINANCES

The FD&D class bonds and cash portfolio generated income of US$1.25 million, a 4.52% return. Reserves rose to US$9.54 million (US$8.5 million at the conclusion of the preceding year). The Club is acutely aware that any deterioration in the current high freight rates is likely to translate into a substantial increase in the costs of claims. For this reason, the managers are committed to further strengthening of the finances of the FD&D class.





INDUSTRY ISSUES

CONTINUED HOSTILITY TOWARDS SHIPPING AND SEAFARERS

Growing liabilities and aggressive regulatory measures combined to ensure no improvement in the shipping industry's position during the year. Higher liability limits were introduced under the 1996 Protocol to the 1976 Convention on Limitation of Liability for Maritime Claims. This was followed in November by a 50% increase in tanker owners' liabilities, introduced under the 1992 Protocols to the Civil Liability Convention (CLC) and Fund Convention. There is also the prospect of a 500% increase in passenger liability under the 2002 Protocol to the Athens Convention. The generally hostile attitude towards vessel operators and seafarers persists, coupled with very little recognition of the industry's huge significance for international trade and the world economy.

During the first quarter of 2005 the European Parliament brushed aside representations made by 13 maritime organisations. The Strasbourg Assembly approved moves to introduce an EU Directive criminalising marine accidents. This decision was taken with an alarming lack of awareness of the negative consequences.

The full impact of this damaging decision is far from clear. This will depend largely on how the measures are interpreted by individual Member States. It is to be hoped that they will not follow the French and Spanish models.

The new EU measures refer to "gross negligence", a term which is far more difficult to define than "wilful act". When an accident does result in severe pollution, the interpretation may prove to be very harsh indeed. According to this new EU vision of justice, the bigger the spill, the more guilty the party.

The industry was shocked at Strasbourg's willingness to set aside some of the most important fundamentals of natural justice. It appears that any incident in EU waters leading to significant pollution could result in the imposition of prison sentences, regardless of fault, for those unlucky enough to be directly involved.

Determined industry lobbying has so far failed to achieve its primary objective: an EU outcome which respects the long-established and essentially fair provisions of the MARPOL and UNCLOS Conventions. In remaining deaf to industry arguments, Strasbourg has accelerated the disturbing move from zero tolerance of spills to zero tolerance of mistakes. It would seem that consequences, rather than fault, are to determine the culpability of seafarers caught up in major incidents in EU waters.

The industry campaign against criminalisation has strong support from IMO Secretary General Efthimios Mitropoulos. He has called for an end to the use of seafarers as scapegoats. He has also said that both the IMO and ILO regard unwarranted detention as a violation of human rights. The IMO and ILO are now drawing up international guidelines on the fair treatment of seafarers.

Unless the industry's voice is heard, the many injustices suffered by Captain Mangouras of the *Prestige* will almost certainly be repeated, despite some rather belated assurances to the contrary from EU officials. Too many jurisdictions already regard Masters as scapegoats, liable regardless of fault, and Strasbourg appears to have endorsed such behaviour.

SPILL LIABILITY ISSUES

Fresh challenges continue to develop with regard to oil pollution liability. The optional "Third Tier" compensation regime, adopted under the May 2003 Protocol to the Fund Convention, took effect in March 2005. This provides additional funds to compensate those suffering damage as a result of catastrophic spills.

Meanwhile, various proposals have been made for a major revision of the CLC/Fund compensation system. An IOPC Fund meeting earlier this year was divided on the issue and the matter will now be considered at the Fund Assembly in October.

The International Group Clubs are prepared to consider shared responsibility for Third Tier compensation, together with some increase in CLC liability limits, but they oppose a full revision of the existing compensation system, on the grounds that it has performed well for over three decades. The Clubs now find themselves in a dilemma. If they do accept Third Tier sharing and a general increase in liability under CLC, they may then find that calls for a major revision continue.

Meanwhile, the Clubs continue to develop "STOPIA", the Small Tankers' Oil Pollution Indemnification Agreement. STOPIA, as envisaged, would provide for a voluntary increase in liability limits for tankers of up to 29,548 GT insured by International Group Clubs and reinsured through the pooling arrangement.

These complex matters are likely to provide a stern test of the International Group's cohesion. Fortunately, the Clubs' position is supported by the weight of experience. Powerful arguments can be marshalled to demonstrate that the shipowners' liability framework under CLC has functioned effectively for many years. There is no reason why it should not continue to do so.

ISSUES FOR THE INTERNATIONAL GROUP

The International Group is important to the P&I community and to the shipping

FRESH CHALLENGES CONTINUE TO DEVELOP WITH REGARD TO OIL POLLUTION LIABILITY.

industry as a whole. Members provide liability insurance for over 90% of world tonnage. The International Group may have a low public profile but it is highly effective in tackling issues of great significance to owners. It is active in much of the industry's work associated with regulatory affairs and other important developments.

Self-regulation has real meaning within the International Group. Club representatives, working under International Group auspices, are judged by their peers. Furthermore, a rich vein of expertise is available to the International Group's subcommittees. Master Mariners sit alongside those prominent in fields as diverse as engineering and law. It is time to capitalise on this expertise and expand the International Group's infrastructure, to better equip it to face new challenges.

It is a matter of regret that the International Group's considerable achievements over the years are not more widely recognised. Its work on pollution liability is well known but much else has been achieved, to the benefit of all shipowners. Its current priorities include opposition to criminalisation and promoting awareness of jurisdictional problems. In many jurisdictions it is becoming ever harder to achieve due recognition of merits in cargo-related cases. The International Group's Claims Cooperation Subcommittee is doing important work in this area. This is a difficult subject. It is becoming increasingly difficult to obtain a measure of justice, but it is becoming ever easier to detain and arrest ships. More needs to be done to fight the industry's corner and campaign for fair treatment.

The International Group is working to counter the misguided view that insurers should police the shipping industry. Clubs do have an important role in promoting safety and quality within their memberships, but enforcement is a matter for Flag States and Port States, not P&I Clubs. Consider the respective positions of the Club Surveyor and the Port State Inspector. A Club Surveyor examining a vessel's hatchcovers does so with the aim of avoiding cargo claims. A Port State Inspector, however, is focused on safety and what the state of the hatchcovers might say about the vessel's overall condition. They share common concerns regarding safety but it would be foolish to suggest that, somehow, their roles are interchangeable.

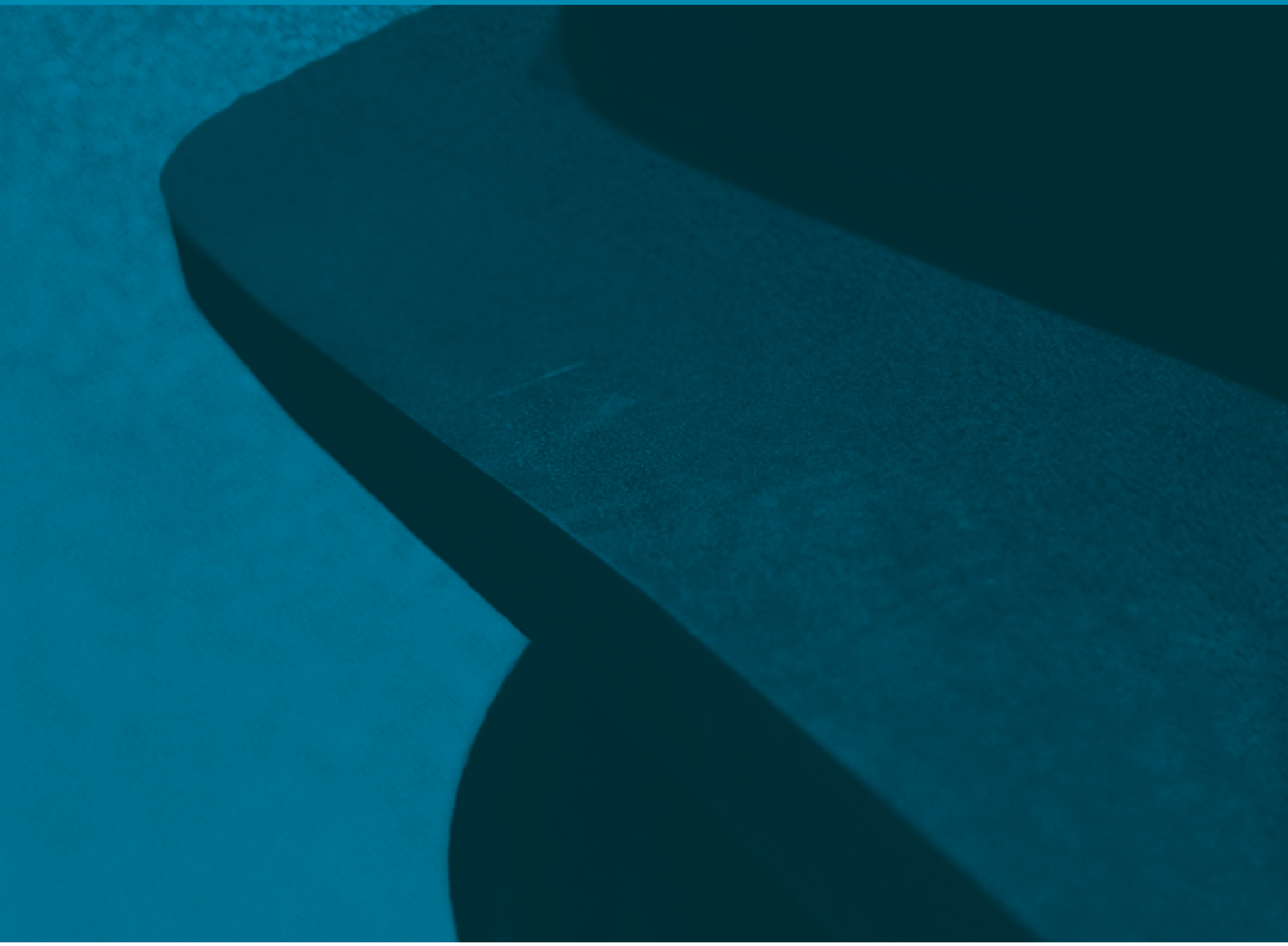
CONFRONTING HUMAN ISSUES

Many issues relating to substandard ship operation centre on the human element. Few large claims arise from "hardware" factors alone. The quality of an owner's ship management infrastructure is a key issue. North of England will not accept prospective members when quality in this area falls short of expectations.

Human issues and the industry's negative profile are connected. At present it is difficult to answer the question: "Why should today's well-qualified young people go to sea?" Things must change. If nothing changes, the industry will suffer a crippling shortfall in people with the qualifications, commitment and enthusiasm needed to breathe new life into shipping.

One of the most serious problems is the loss of the seafarer's professional status. There are also the negatives of criminalisation and an increasingly restrictive lifestyle. The industry must wake up and accept the case for very considerable investment in profile-building and, above all, in people. There was a time when the ship Master's status was equal to that of doctors, lawyers and accountants ashore. What has been lost in recent decades must be regained.

CONTENTS



COMBINED FINANCIAL STATEMENTS

North of England P&I Association Limited's financial statements for the year ended 20 February 2005 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 32 to 45 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.

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 2005 ("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 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 2005.

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 preparation of 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 2005.

   The auditors' report on the statutory consolidated financial statements of NEPIA was issued by ourselves on 24 May 2004 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 2005.

   The auditors' report on the statutory financial statements of NoE(Bermuda) was issued by Moore Stephens & Butterfield on 20 May 2005 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 LLP

Chartered Accountants

Newcastle upon Tyne

24 May 2005

COMBINED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 20 FEBRUARY 2005

	Notes	Total 2005 US$000's	Total 2004 US$000's
TECHNICAL ACCOUNT – GENERAL BUSINESS			
Gross premiums written	2	174,466	156,446
Outward reinsurance premiums	3	(32,669)	(31,686)
		141,797	124,760
Allocated investment return transferred from the non-technical account		19,780	40,883
Gains / (Losses) on exchange		1,814	12,470
Total technical income		163,391	178,113
Claims paid			
Gross amount	4	(115,492)	(105,872)
Reinsurers' share		9,911	9,700
		(105,581)	(96,172)
Change in the provision for claims			
Gross amount	5	(6,761)	(64,163)
Reinsurers' share		(23,815)	33,599
		(30,576)	(30,564)
Net operating expenses	6	(17,972)	(16,361)
Total expenditure		(154,129)	(143,097)
Balance on the technical account for general business		9,262	35,016
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		9,262	35,016
Investment income	7	22,584	4,165
Unrealised (losses) / gains on investments		(1,565)	38,251
Investment expenses and charges		(1,239)	(1,533)
		19,780	40,883
Allocated investment return transferred to the general business technical account		(19,780)	(40,883)
Surplus / on ordinary activities before tax		9,262	35,016
Tax on ordinary activities	8	(445)	(1,152)
Surplus / for the financial year		8,817	33,864
Transfer to Contingency fund	10	(5,179)	(14,166)
Transfer to / (from) Income and Expenditure reserve		3,638	19,698
Income and Expenditure reserve brought forward		(30,616)	(50,314)
Income and Expenditure reserve carried forward		(26,978)	(30,616)

Protecting & Indemnity Class		Freight, Demurrage & Defence Class		War Risks Class	
2005 US$000's	2004 US$000's	2005 US$000's	2004 US$000's	2005 US$000's	2004 US$000's
164,033	146,943	9,767	8,957	666	546
(31,759)	(30,780)	(438)	(420)	(472)	(486)
132,274	116,163	9,329	8,537	194	60
18,446	39,650	1,092	285	242	948
1,660	10,346	157	2,131	(3)	(7)
152,380	166,159	10,578	10,953	433	1,001
(110,366)	(101,507)	(5,125)	(4,361)	(1)	(4)
9,911	9,786	–	(86)	–	–
(100,455)	(91,721)	(5,125)	(4,447)	(1)	(4)
(5,223)	(61,988)	(1,538)	(2,175)	–	–
(23,734)	33,664	(81)	(65)	–	–
(28,957)	(28,324)	(1,619)	(2,240)	–	–
(15,012)	(13,663)	(2,774)	(2,541)	(186)	(157)
(144,424)	(133,708)	(9,518)	(9,228)	(187)	(161)
7,956	32,451	1,060	1,725	246	840
7,956	32,451	1,060	1,725	246	840
21,311	2,740	1,273	1,425	–	–
(1,724)	38,308	(112)	(1,034)	271	977
(1,141)	(1,398)	(69)	(106)	(29)	(29)
18,446	39,650	1,092	285	242	948
(18,446)	(39,650)	(1,092)	(285)	(242)	(948)
7,956	32,451	1,060	1,725	246	840
(416)	(1,076)	(24)	(54)	(5)	(22)
7,540	31,375	1,036	1,671	241	818
(2,124)	(10,322)	(3,055)	(3,844)	–	–
5,416	21,053	(2,019)	(2,173)	241	818
(30,494)	(51,547)	(3,767)	(1,594)	3,645	2,827
(25,078)	(30,494)	(5,786)	(3,767)	3,886	3,645

COMBINED BALANCE SHEET

AT 20 FEBRUARY 2005

	Notes	Total 2005 US$000's	Total 2004 US$000's
ASSETS			
Investments			
Land and buildings		10,040	9,910
Other financial investments	9	464,093	411,684
		474,133	421,594
Reinsurers' share of technical provisions			
Claims outstanding		89,046	112,861
Debtors			
Debtors arising out of direct insurance operations		5,681	24,273
Debtors arising out of reinsurance operations		1,131	2,667
Other debtors		2,668	1,665
		9,480	28,605
Other assets			
Tangible assets		2,665	2,305
Cash at bank and in hand		13,370	10,059
		16,035	12,364
Prepayments and accrued income		3,466	2,988
Total assets		592,160	578,412
LIABILITIES			
Reserves			
Income and expenditure account		(26,978)	(30,616)
Contingency fund	10	169,253	164,074
		142,275	133,458
Technical provisions			
Claims outstanding			
Gross amount		432,281	425,520
Creditors			
Creditors arising out of direct insurance operations		2,859	1,889
Creditors arising out of reinsurance operations		7,405	10,370
Amounts owed to credit institutions		3,555	3,691
Provision for taxation		298	910
Other creditors		863	438
		14,980	17,298
Accruals and deferred income		2,624	2,136
Total liabilities		592,160	578,412

Protecting & Indemnity Class		Freight, Demurrage & Defence Class		War Risks Class	
2005 US$000's	2004 US$000's	2005 US$000's	2004 US$000's	2005 US$000's	2004 US$000's
10,040	9,910	–	–	–	–
430,642	379,203	29,163	28,492	4,288	3,989
440,682	389,113	29,163	28,492	4,288	3,989
89,046	112,780	–	81	–	–
4,510	23,298	1,147	951	24	24
933	2,547	198	120	–	–
2,703	2,899	288	(1,020)	(323)	(214)
8,146	28,744	1,633	51	(299)	(190)
2,665	2,305	–	–	–	–
12,564	9,681	791	334	15	44
15,229	11,986	791	334	15	44
3,129	2,775	337	213	–	–
556,232	545,398	31,924	29,171	4,004	3,843
(25,078)	(30,494)	(5,786)	(3,767)	3,886	3,645
153,928	151,804	15,325	12,270	–	–
128,850	121,310	9,539	8,503	3,886	3,645
410,256	405,033	22,025	20,487	–	–
2,734	1,869	125	20	–	–
7,161	10,085	138	98	106	187
3,555	3,691	–	–	–	–
298	910	–	–	–	–
863	438	–	–	–	–
14,611	16,993	263	118	106	187
2,515	2,062	97	63	12	11
556,232	545,398	31,924	29,171	4,004	3,843

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 2005, which have been prepared in accordance with UK company law, and which included an unqualified audit report from Deloitte & Touche LLP, Newcastle upon Tyne. Figures for NoE(Bermuda) are extracted from the audited financial statements as at 20 February 2005, 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, a cashflow statement, a statement of total recognised gains and losses and 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.

The same basis is applied for all open and closed policy years.

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 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 movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years and the remainder is allocated to 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.

Allocation of costs across the Classes

Costs that are directly attributable to a class are allocated to that class. Other costs are allocated according to time allocation and premium income.

Revaluation

The freehold property is revalued every three years with the surplus or deficit on book value being transferred to the income and expenditure account.

Foreign exchange

All exchange differences are included in the income and expenditure account.

Investments

All listed investments are stated in the balance sheet at their mid-market value on the balance sheet date. Subsidiaries and unlisted investments are stated at historic cost less any permanent diminution in value.

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 20% 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, with the exception of tangible fixed assets which are translated at historic rates on the date of acquisition. 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.

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

	2005			2004
United Kingdom	£0.528	=	US$1	(£0.535)
Euro	€0.765	=	US$1	(€0.795)
Japan	YEN105.745	=	US$1	(YEN108.855)

NOTES TO THE ACCOUNTS

(CONTINUED)

2. GROSS PREMIUMS WRITTEN

	2005 US$000's	2004 US$000's
Gross premiums charged	174,466	156,446

3. REINSURANCE PREMIUMS

	2005 US$000's	2004 US$000's
Market	17,536	16,777
International Group	14,661	14,423
War Risks Group	472	486
	32,669	31,686

4. GROSS CLAIMS PAID

	2005 US$000's	2004 US$000's
Members' claims	89,633	84,452
Other P&I Clubs' pool claims	11,892	9,534
Claims handling costs	13,967	11,886
	115,492	105,872

5. CHANGE IN THE PROVISION FOR GROSS CLAIMS

	2005 US$000's	2004 US$000's
Members	1,302	61,795
Pooling agreement	5,459	2,368
	6,761	64,163

6. NET OPERATING EXPENSES

	2005 US$000's	2004 US$000's
Brokerage	9,700	9,631
Acquisition costs	5,824	4,967
Administration expenses		
Gross	18,031	14,967
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(1,616)	(1,318)
Claims handling costs	(13,967)	(11,886)
	2,448	1,763
Net operating expenses	17,972	16,361

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 2005. The Ratio of 9.2% (2004 – 10.0%) 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

	2005 US$000's	2004 US$000's
Income from listed investments	8,505	10,887
Bank and other interest receivable	471	165
Realised gains / (losses)	13,608	(6,887)
	22,584	4,165

8. TAX

	2005 US$000's	2004 US$000's
Corporation tax on investment income at 30% (2004 – 30%)	441	1,152
Adjustment in respect of prior years	4	–
Charge for the year	445	1,152

There is no provided or unprovided deferred tax at 20 February 2005 (2004 – nil).

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.

	2005 US$000's	2004 US$000's
Market Value		
Shares and other variable-yield securities	140,404	109,991
Fixed income securities	314,008	277,709
Unrealised gain on forward exchange contracts	341	215
Deposits with credit institutions	9,340	23,769
	464,093	411,684
Cost		
Shares and other variable-yield securities	112,713	81,993
Fixed income securities	311,598	274,042
Deposits with credit institutions	9,340	23,769
	433,651	379,804

10. CONTINGENCY FUND

Protecting & Indemnity Class

	2005 US$000's	2005 US$000's	2004 US$000's	2004 US$000's
Balance at 20 February 2004		151,804		141,482
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / losses and income	(11,402)		6,892	
Surplus transferred from closed policy years	13,526		3,430	
		2,124		10,322
Balance at 20 February 2005		153,928		151,804

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

Freight, Demurrage & Defence Class

	2005 US$000's	2005 US$000's	2004 US$000's	2004 US$000's
Balance at 20 February 2004		12,270		8,426
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / losses and income	(659)		2,143	
Surplus transferred from closed policy years	3,714		1,701	
		3,055		3,844
Balance at 20 February 2005		15,325		12,270

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, for policy years up to and including 2004/2005, 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$10,337,588 (2004 – US$11,883,506) in relation to its participation in the arrangement.

12. 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$2.0 million (2004 - US$4.1 million).

COMBINED P&I CLASS POLICY YEAR STATEMENT

	Closed Years	2002/ 2003	2003/ 2004	2004/ 2005	Claims Handling Reserve	Contingency Fund	Unrealised Gains and Foreign Exchange	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
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		115,064	137,520	–	–	–	–	252,584
Invoiced in Current Year		55	1,138	151,372	–	–	–	152,565
		115,119	138,658	151,372	–	–	–	405,149
Release Premium		1,433	856	386	–	–	–	2,675
		116,552	139,514	151,758	–	–	–	407,824
Reinsurance Premiums		(23,905)	(31,133)	(31,961)	–	–	–	(86,999)
		92,647	108,381	119,797	–	–	–	320,825
Investment income, gains on sales of investments, and exchange movements		13,149	14,302	12,089	–	69,977	32,557	142,074
Transfers		–	–	–	–	87,016	–	87,016
		105,796	122,683	131,886	–	156,993	32,557	549,915
Members' & Pool Claims		(59,179)	(50,226)	(24,518)	–	–	–	(133,923)
Expenses & Tax		(13,972)	(16,698)	(19,008)	–	(3,065)	–	(52,743)
Surplus Available on Closed Years	86,811	–	–	–	–	–	–	86,811
Balances Available for Outstanding Claims	86,811	32,645	55,759	88,360	–	153,928	32,557	450,060
Outstanding Claims	(106,010)	(50,702)	(96,113)	(130,421)	(11,600)	–	–	(394,846)
Reinsurance Recoveries	19,199	12,517	29,315	12,605	–	–	–	73,636
	(86,811)	(38,185)	(66,798)	(117,816)	(11,600)	–	–	(321,210)
Surplus / (Deficit) at 20 February 2005	**–**	**(5,540)**	**(11,039)**	**(29,456)**	**(11,600)**	**153,928**	**32,557**	**128,850**
Surplus / (Deficit) at 20 February 2004	129	(20,284)	(33,406)	–	(11,000)	151,804	34,067	121,310

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 2005.
2. Investment income, gains and losses on sales of investments and exchange movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years, and the remainder is allocated to the contingency fund. The foreign exchange gain on the freehold building is included in unrealised gains and foreign exchange.
3. Premium is 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:

	2002/2003 US$000's	2003/2004 US$000's	2004/2005 US$000's
General and administrative expenses	12,123	14,224	17,451
Merger costs transferred to Contingency Fund	(24)	–	–
Investment expenses	1,361	1,398	1,141
Taxation	512	1,076	416
	13,972	16,698	19,008

6. Estimated outstanding claims are net of expected reinsurance recoveries from the International Group of P&I Clubs, as reported at 20 February 2005 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:

2002/03	US$9.9 million
2003/04	US$12.1 million
2004/05	US$13.5 million

COMBINED FD&D CLASS POLICY YEAR STATEMENT

	Closed Years US$000's	2002/ 2003 US$000's	2003/ 2004 US$000's	2004/ 2005 US$000's	Claims Handling Reserve US$000's	Contingency Fund US$000's	Unrealised Gains US$000's	Total US$000's
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		7,986	8,496	–	–	–	–	16,482
Invoiced in Current Year		6	105	9,107	–	–	–	9,218
		7,992	8,601	9,107	–	–	–	25,700
Release Premium		115	46	14	–	–	–	175
		8,107	8,647	9,121	–	–	–	25,875
Reinsurance Premiums		(504)	(580)	(633)	–	–	–	(1,717)
		7,603	8,067	8,488	–	–	–	24,158
Investment income, gains on sales of investments, and exchange movements		1,831	767	488	–	4,508	(30)	7,564
Transfers		–	–	–	–	10,817	–	10,817
		9,434	8,834	8,976	–	15,325	(30)	42,539
Claims		(1,797)	(1,303)	(487)	–	–	–	(3,587)
Expenses & Tax		(2,860)	(4,399)	(4,702)	–	–	–	(11,961)
Surplus Available on Closed Years	4,573	–	–	–	–	–	–	4,573
Balances Available for Outstanding Claims	4,573	4,777	3,132	3,787	–	15,325	(30)	31,564
Outstanding Claims	(4,573)	(2,772)	(4,150)	(5,530)	(5,000)	–	–	(22,025)
Reinsurance Recoveries	–	–	–	–	–	–	–	–
	(4,573)	(2,772)	(4,150)	(5,530)	(5,000)	–	–	(22,025)
Surplus / (Deficit) at 20 February 2005	**–**	**2,005**	**(1,018)**	**(1,743)**	**(5,000)**	**15,325**	**(30)**	**9,539**
Surplus / (Deficit) at 20 February 2004	2,458	843	(2,107)	–	(5,000)	12,270	39	8,503

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 2005.
2. Investment income, gains and losses on sales of investments and exchange movements are allocated to open policy years on the basis of a seven year projection using the annualised return of the previous seven years, and the remainder is allocated to the contingency fund.
3. Premium is 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:

	2002/2003 US$000's	2003/2004 US$000's	2004/2005 US$000's
General and administrative expenses	2,652	4,239	4,609
Investment expenses	89	106	69
Taxation	119	54	24
	2,860	4,399	4,702

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:

2002/03	US$0.6 million
2003/04	US$0.6 million
2004/05	US$0.6 million

NOTES

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