MANAGEMENT REPORT
2007

NORTH OF ENGLAND

Photography front cover: The Tyne Bridge, which has spanned the River Tyne connecting Newcastle and Gateshead since it was opened in 1928 by George V. At the time it was the largest single span bridge in the world. This cover design continues the recent theme of incorporating iconic pictures from the North East of England.

Registered in England. Company registration number: 505456
VAT registration number: 828 5711 10

CONTENTS

MANAGEMENT HIGHLIGHTS

Finance

- Total free reserves increased by 13.21% to US$190 million
- P&I class investment return of 12.47%
- Total net assets increased by US$93 million to US$634 million

Membership

- Total entered tonnage increased to 70 million GT
- Year-on-year owned tonnage growth of 15%
- Further high-quality members joined since 20 February 2006

Service

- Continued commitment to enhanced service provision
- Vigorous staff recruitment programme
- Proactive member-specific loss prevention initiatives

FINANCIAL SUMMARY

Five Year Combined Summary

Amount in US$ million; All classes

Income and expenditure

	2006/07	2005/6	2004/5	2003/4	2002/3
Premium	193.5	177.1	174.5	156.5	133.1
Investment income less tax	54.8	30.1	20.6	39.7	7.5
Exchange gain / (loss)	9.6	(4.9)	1.5	12.5	10.1
Reinsurance costs	(28.6)	(24.0)	(32.6)	(31.7)	(23.9)
Net claims incurred	(179.7)	(130.9)	(136.2)	(126.7)	(99.1)
Expenses	(29.0)	(24.3)	(19.4)	(16.4)	(15.1)
Surplus for the year	20.6	23.1	8.4	33.9	12.6
Increase in revaluation reserve	1.6	2.9	0.1		
Increase in free reserve	22.2	26.0	8.5		

Balance sheet

	Feb-07	Feb-06	Feb-05	Feb-04	Feb-03
Investments	517.5	433.8	355.8	282.5	352.0
Cash and cash equivalents	85.5	96.2	121.3	149.2	20.3
Other assets	48.3	38.1	25.9	33.9	37.1
	651.3	568.1	503.0	465.6	409.4
Creditors	(17.3)	(27.0)	(17.8)	(19.4)	(27.7)
Net assets	634.0	541.1	485.2	446.2	381.7
Net outstanding claims	(443.8)	(373.1)	(343.2)	(312.7)	(282.1)
Free reserves	190.2	168.0	142.0	133.5	99.6

CHAIRMAN'S STATEMENT BILL THOMSON

A YEAR OF HIGHS

The 2006 policy year could be described as a year of two halves.

On the one hand, North of England had a fantastically successful year, with total entered tonnage increasing by 15% to 70 million GT, total net assets rising by US$93 million to US$634 million and total free reserves up 13.21% to US$190 million. We welcomed many new high-quality members, saw further organic growth from our existing membership, continued with our strategy of membership refinement, maintained our strong focus on excellent service to our members and made tremendous progress in achieving our corporate objectives.

On the other hand, we faced an appalling claims environment; Pool claims will, if they follow historical development trends, exceed US$500 million – virtually double the previous highest reported position. In terms of Pool claims, 2004 and 2005 were difficult years but 2006 is the worst in history.

During the 2006 policy year, North of England received 25 major claims-that is to say, claims over US$1 million – compared with 21 in 2004 and just 13 in 2005, which was a remarkably quiet year.

Clearly, North of England – and the wider P&I sector – must face up to the prospect that these high claims levels may continue. The claims costs we are facing are perhaps the inevitable consequence of the unprecedented highs of the freight markets. With the booming freight markets expected to continue and claims following the same trend, there is enormous pressure on all marine underwriters.

The reality is that this situation must lead to unavoidable and severe corrective action at next year's renewal. Shipowners have been making substantial and unprecedented profits in the present climate – next year they may have to be prepared for what could be very significant increases in premiums.

The Club can look back with satisfaction on another remarkably successful year but one that was affected by larger, extraneous events. We achieved an outstanding investment return, but the warning note is that this return helped to prop up what was a disappointing claims year. Maintaining our technical underwriting balance remains a huge challenge.

North of England is now firmly established as one of the leading International Group Clubs, based on membership quality, financial strength and service excellence. At the same time, our full 'A' rating by Standard & Poor's underlines the financial strength and stability of the Club and we cannot over-state how important it is – or how hard we are prepared to work – to maintain this rating. We are determined to achieve this despite the current claims and liability climate in which we are all operating.

THE ROOT CAUSES

It is necessary to identify, and reduce where possible, the underlying causes of the high claims we are facing.

This is a bonanza period for the shipping industry with huge financial returns and gains across the whole sector. While freight rates are at record levels, there is a price to pay – in the form of substantial pressures on ships, operators and crew.

There is a clear correlation between freight markets and claims levels. Strong freight markets lead to more demand, putting ships under pressure to keep operating without a break. While required maintenance is generally carried out, commercial and running pressures mean that in many cases, the added extras involved in looking after a ship can go by the wayside, simply because the ship and crew are working to the limit.

We have all been caught out by the cycle. In many cases ships' lives are being extended beyond that which was originally planned, but without the long-term maintenance that owners would have expected to do had they known they would be retaining the ship.

More ships are needed and they are, of course, being built at an enormous rate. More ships need more crew and that is where the whole process hits the wall.

The shortage of experienced seafarers is nothing new – we have been reading the warning signs and discussing the situation for years. Now we are facing the reality of that shortage, with inexperienced and often poorly trained crews, the ongoing difficulty of recruiting seafarers and the knock-on effect of a shortage of experienced personnel to take on the vital shore-based jobs.

There are simply not enough people out there to run the ships themselves, or to provide the support and experience from ashore.

On paper, through the introduction of the STCW (Standards of Training, Certification and Watchkeeping) Convention, crews are now better qualified than they have ever been. However, in seeking to establish an international system through which vessel operators can be sure that the seafarers they employ are properly qualified, the need for practical experience can be overlooked.

In recent years we have seen a significant reduction in the amount of sea time required to obtain qualifications.

Over the past year there have been a number of incidents where relatively minor problems with a vessel have developed into claims which could have been much reduced had basic procedures such as regular hold inspections, tank soundings, pre-loading or departure checks been undertaken – or if simple common sense had been applied.

The experience of recent claims suggests that the issue of training and competence is not related solely to vessel crews. The shortage of seafarers will inevitably have an effect on the availability, experience and competence of vessel superintendents and other shore staff who are a vital part of ship operations.

Shipowners and operators worldwide are reaping the reward of the current boom. Now it is payback time – not in terms of increased wages, but through investing in the future. Shipowners must invest in training schools, recruitment and encouraging young people back to sea, if we are to secure the crews that we need for our future. The whole industry must work together to encourage young people to consider a career at sea.

The answer to the recruitment problem throughout the industry – from surveyors to superintendents – is not simply one of providing training places and financial enticements. The challenge is to attract professional staff of the right calibre, who will have a sense of pride and responsibility in their work. If this can be achieved successfully, then perhaps the industry can re-establish the general respect for and status of the people who are prepared to leave their homes and families for many months at a time to operate complex and expensive vessels in an often difficult and hostile environment.

This, in turn, may have the effect of encouraging seafarers to go to sea not simply because it is a job but because it offers a career and one in which they can have pride, earn respect and find the opportunity to progress to higher levels.

However, shipowners often want it both ways. They talk about seafarer retention rates, and there is no doubt of the link between good working conditions and retention – but they want that retention rate without necessarily investing or, indeed, giving their seafarers the security of being on the payroll.

In the meantime, the increasing criminalisation of the seafarer, and growing tendency to throw masters into jail around the world, can only act as a deterrent to potential seafarers. We are hardly going to encourage young people to consider a career at sea if there is a threat of jail at the first infringement. Who would take on such a job?

In parallel, the European Union's attitude to shipowners appears to be to penalise them from all angles – and the industry as a whole continues to suffer as a result of a broadly negative approach from governments, non-governmental organisations and many communities. In another critical issue, we continue to support the legal challenge to the EU Ship Source Pollution Directive, which goes against existing international Conventions.

As a Club, we continue to face difficulties relating to the jurisdiction in which claims arise. Local courts tend to support local interests. Claims can be massively exaggerated and the ship owners pay – we all pay.

The unprecedented shipping markets of the past few years look set to continue and the financial rewards to those involved in shipping will continue. The immediate effects of this will be much higher crew retention costs, as well as higher P&I insurance premiums.

PILOT LIABILITY

Whilst considering people related matters, the P&I sector has seen an increasingly high number of claims involving incidents whilst pilots were on board. Often those pilots were not properly trained, qualified or certificated in any way.

The lack of an international standard for pilots combined with a pilot's very limited liability adds up to a huge risk for shipowners and their P&I Clubs. For example, a vessel under full pilotage could cause several million dollars of damage to a jetty – but the pilot's liability would, in all likelihood, be limited to a few hundred dollars.

Yet shipowners have no choice; in most places around the world, pilotage is compulsory and involves the most dangerous part of the ship's voyage, entering and leaving port. We continue to lobby for improved training, a standard qualification for pilots, and we believe that pilots should be held liable for their actions.

CHAIRMAN'S STATEMENT CONTINUED

SERVICE AND TRANSPARENCY

North of England continues to meet the increased demands from members for service and advice. As ever, we are searching out and recruiting high-quality staff, in order to maintain the standards we have always insisted upon.

Since February 2006 we have recruited more than 20 highly professional and motivated people to further enhance our already excellent team.

Excellence of service is the bedrock on which the Club has developed.

We recognise that the Club's success is down to the quality of our service and our people. In 2006 North of England organised a series of conferences involving all our staff, during which we discussed ways of improving our service and looked specifically at ways of developing the Club's ethos of being an extension of each member's office. As a result, a number of continuous improvement groups have been formed to focus on improving and adding to our service offering.

We opened our new Singapore office in March 2007 – a clear indication of the way in which we are extending our service to members.

We also continue with our policy of transparency at North of England, in the strong belief that transparency is the companion of good governance.

INTERNATIONAL GROUP

With the entry into force of the Athens Convention expected in the near future, North of England welcomed the International Group's move to cap liabilities for total passenger and crew claims at US$3 billion (US$2 billion for passengers) from 20 February 2007.

With a real fear that the enormous cruise ships carrying thousands of passengers could undermine the whole of the P&I system, this was a responsible and pragmatic response from the International Group. It was a solution achieved with good will and a move for which North of England had campaigned hard.

North of England also supports the creation by the International Group of a reinsured collective overspill protection layer of US$1 billion, effective from 20 February 2007. This was a radical change which increased the Group's reinsurance cover by 50% to US$3 billion, effectively reducing the element of uninsured overspill exposure for all shipowners.

P&I INFLUENCE

As a Club, we support the increasing prominence and importance of the International Group, which offers a cohesive voice on industry matters, championing the development of safe, high-quality, pollution-free shipping. We also welcome the strengthening of the International Group's secretariat.

The work of the P&I sector in increasing standards in the shipping world deserves recognition and we must continue to get that message across.

Whilst the shipping industry, through various representative groups, continues to work hard at least to retain balanced liability and compensation regimes, there is no doubt that the general shift in public attitudes towards responsible parties is creating greater political pressure to make the shipping industry more accountable both legally and financially.

It is difficult to visualise any change in this situation in the future. In the circumstances, we believe that the industry will continue to face a challenging regulatory and liability environment for the foreseeable future. Meanwhile, we firmly believe that as a Club and as a member of the Group, we must use every opportunity and avenue to promote and protect the shipowner's point of view.

North of England's strategy is one of continued growth and further development to provide service at the highest level to an increasing high-quality membership. Service will always remain at the forefront of what we do.

This will be the last management report under my chairmanship, as I handed over to Albert Engelsman at the May 2007 board meeting, after three years in the chair.

During those three years the Club has achieved a great deal of which to be proud.

When I became Chairman in 2004 the total entered tonnage at North of England was 50 million GT. As at 20 February 2007 this had increased to 70 million GT. Meanwhile, we have seen our total free reserves rise from US$133.5 million in 2004 to US$190 million in 2007. We have obtained and maintained our full 'A' rating from Standard and Poor's and we are firmly established as one of the leading P&I Clubs in the world.

During the year several board changes have taken place which has seen two new directors joining the board and the departure of another. Didier Marsac, who represented Louis Dreyfus, was replaced by his company colleague Alain Le Guillard, who joined the board in October 2006. Don Kurtz, who is President of US-based owner Keystone Shipping joined the board in October 2006.

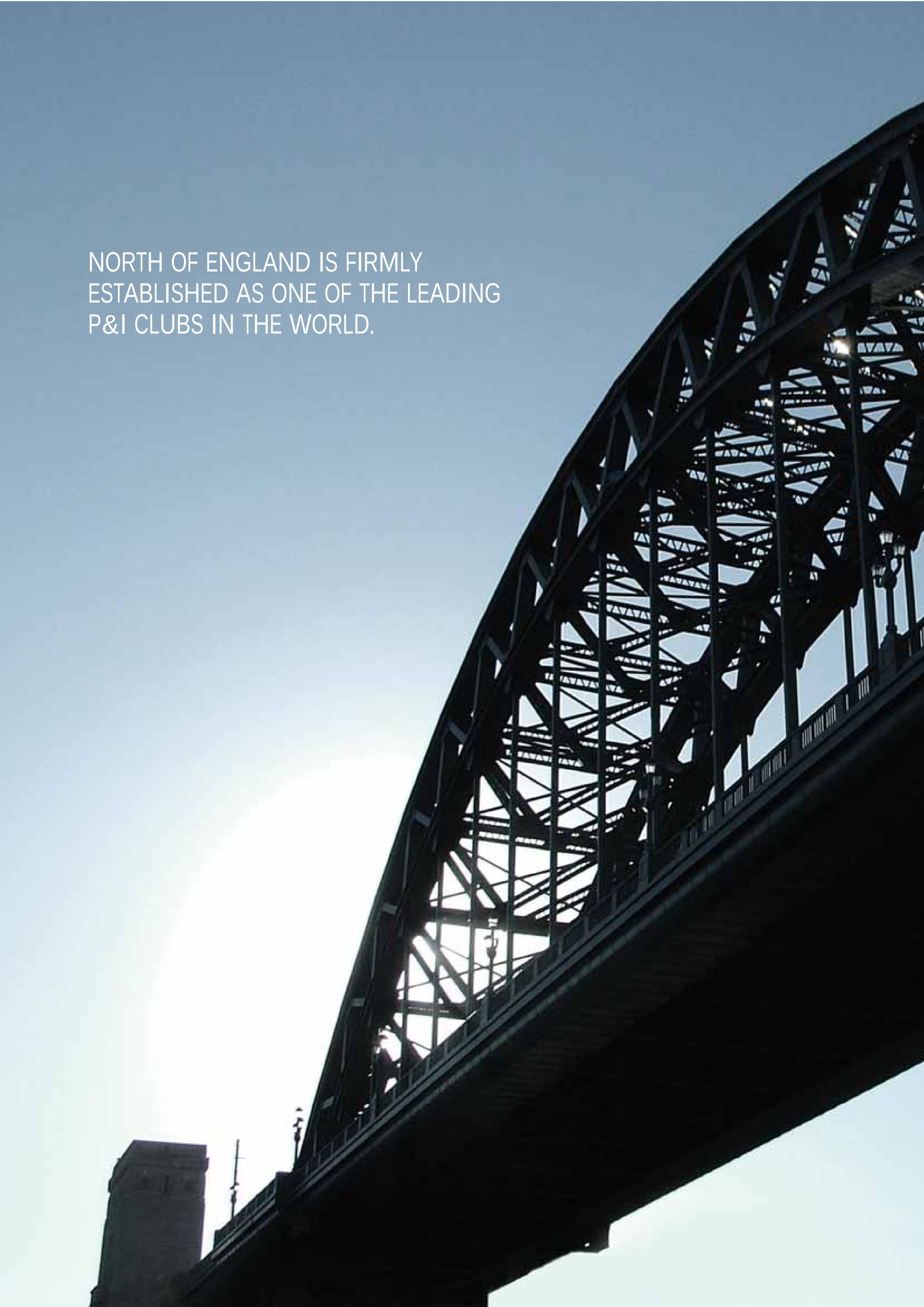
Like my immediate predecessor, George Procopiou, I will remain a board director with North of England and look forward to being involved in its further successes over the years to come. I hand over to Albert Engelsman confident that the continuing development of the Club is in safe hands.

I would like to thank all of our members for their continuing support of the Club.

Finally, none of our achievements could have been made without the hard work of our loyal and motivated managers and staff – I sincerely thank them all.

Bill Thomson, Chairman
July 2007

NORTH OF ENGLAND IS FIRMLY ESTABLISHED AS ONE OF THE LEADING P&I CLUBS IN THE WORLD.



STRATEGY

Service excellence, financial strength and membership quality all underpin the strategy of North of England as we move forward. Our position as one of the International Group's strongest Clubs and our full 'A' rating from Standard & Poor's are clear indications of what has been achieved in recent years. Now, the challenge is to reinforce and improve our position as a top three P&I Club, while working to maintain and improve our financial rating. The Club's high-level target is to be the P&I provider of choice – but at the same time, our central and critical financial objective is to maintain a technical underwriting balance.

In the 2006 policy year we strove to achieve that balance despite the substantial pressure of record claims, particularly International Group Pool claims, which have presented huge challenges for all Clubs. While our investment income has delivered excellent results for the year under review, it is critical to the Club's present and future success that we achieve a technical underwriting balance. This must be achieved despite the frequent volatility of the P&I market.

North of England's strategy has remained consistent over a period of rapid growth since 1994, with our three core objectives – financial strength, service excellence and quality membership underpinning everything we do. Increasingly, a fourth strategy is developing, supported by the Club's very active shipowner members and directors. This is to promote and protect shipowners' interests and to draw upon the experience of our members in this process.

Increasing litigation and other challenges mean that shipowners are trading in an ever more hostile environment. As their Club and partner, we have to respond to this with the very best service, support and advice. Allied to this, and in order to meet increasing demand for support, another challenge has been searching out and recruiting more top-quality staff.

The shipping community is going through some profound changes. Two years ago we predicted that there would be more corporate shipping and we have indeed seen a rapid increase in corporate entities, with many smaller companies disappearing and the landscape changing as a result.

This higher level of corporate interests has also brought an increase in alternative financing methods to the traditional bank finance route, with corporates using IPO stock exchange listing and the bond market as methods to raise funds.

In recognition of these changes, there have been some changes to the Club's working model – a model that was originally built with the focus on smaller to medium-sized companies as an area in which we could best add value and give service.

As the industry has changed, the percentage of corporate companies is probably now approaching 50%, North of England's approach has also evolved.

Whilst continuing to serve our more traditional members, we are being challenged to find new ways of partnering and adding value for corporate organisations which in some cases have technical and risk management departments larger than our own.

The Club's development strategy is to be at least 10% of the world's owned fleet over the next three to four years with the prospect of further growth thereafter. However, we have already achieved a solid critical mass that gives additional strength and protection for the Club and its members.

North of England's position as a large unit allows us to recruit and retain top-quality professionals to our team. Growth will also deliver further economies of scale in purchasing and other costs – but at the same time, we must ensure that we do not dilute service levels. Growth should not be for growth's sake.

Our success over recent years has been a critical motivator for all within the organisation and this positive spirit is at the heart of the Club.

ENTERPRISE RISK MANAGEMENT

MANAGING RISK: A CRITICAL FUNCTION

The management of risk is absolutely fundamental to the Club's ethos; it is critical to the processes by which decisions are taken and strategies are implemented to ensure that the risks created by the Club's activities, or to which it is exposed, are mitigated as far as reasonably possible. Enterprise Risk Management has always been a feature of the Club's operations but has been realigned formally over the past three years to conform to the Risk Management procedures of an increasingly influential regulator, the UK Financial Services Authority (FSA). The Club's Risk Management culture is firmly embedded in the Club's operating systems.

AUDIT COMMITTEE

The functions of this committee are to assist the board in discharging its responsibilities with regard to the integrity of the Club's financial statements, to assess the effectiveness of the Club's internal financial control systems and to monitor the effectiveness and objectivity of internal and external auditors.

The committee receives regular reports on the Club's Enterprise Risk Management processes, including the key risks facing the business and the measures being taken by management to contain them. It also reviews the processes and governance used by management to define the Club's risk appetite and reviews the internal financial and non-financial controls used to monitor the effectiveness of our risk management processes.

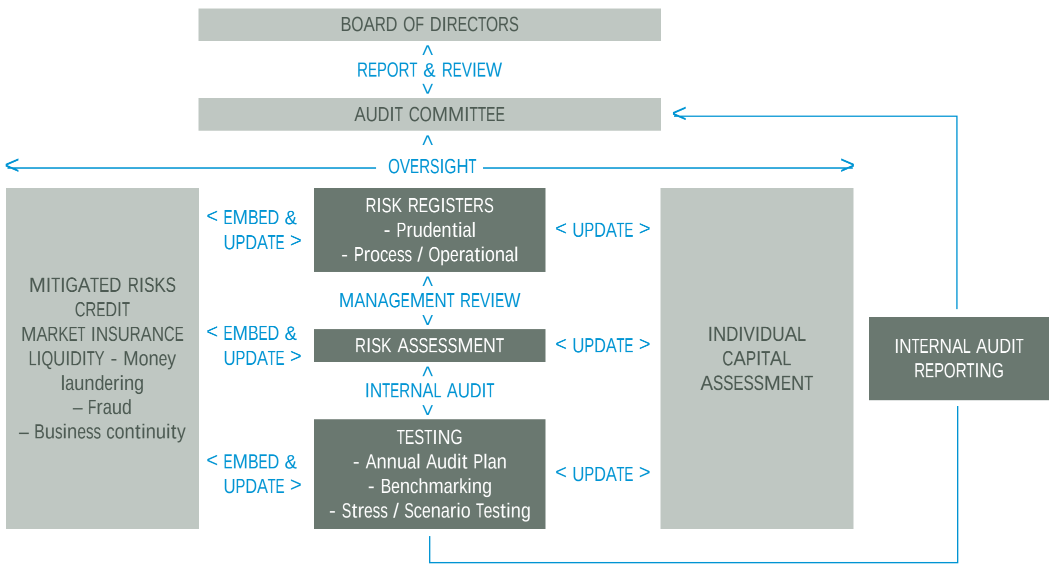
REGULATION AND COMPLIANCE

The Audit Committee reviews the Club's regulatory operating systems and receives regular reports on its relationships with its external regulators. In particular, the committee monitors the actions being taken by management in relation to the risk-based capital calculations in the form of an Individual Capital Assessment (ICA). Reports on any material compliance issues are received by the committee and include any observations recorded by the external auditors. In addition, the committee receives reports on legislative and regulatory developments that may have an impact on the Club.

Additionally, some two years ago, we created an Internal Audit function. The role of the function is to assess the Club's approach to managing its risks. It provides the Audit Committee and the board of directors with information about management's approach to the identification of risks and the extent to which management practices are effective in minimising those risks.

North of England is a highly effective service organisation with a firmly embedded Risk Management culture and ethos.

NORTH OF ENGLAND ENTERPRISE RISK MANAGEMENT PROCESS

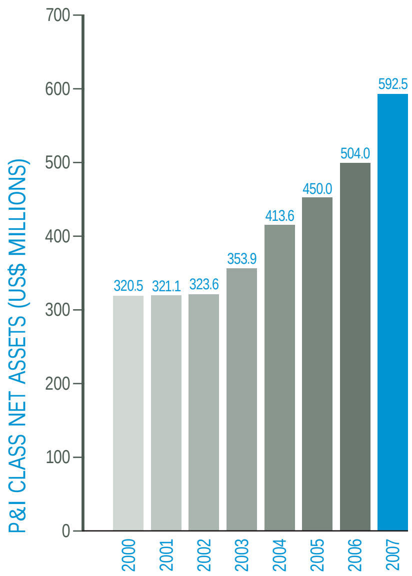


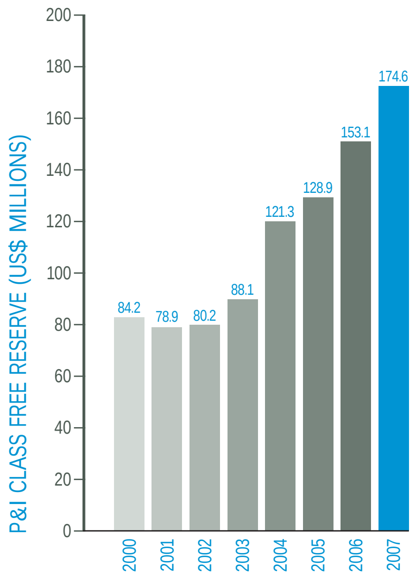
FINANCES

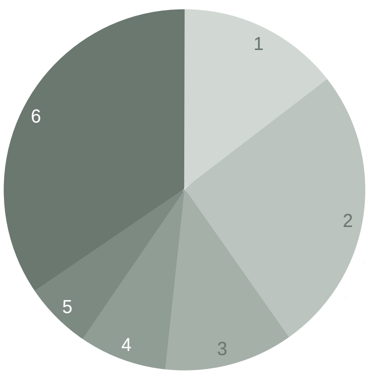
HIGH CLAIMS, HIGH INVESTMENT RETURNS

The financial position of the Club developed further during the year to 20 February 2007, with total free reserves for all classes rising by 13.2% from US$168.0 million to US$190 million. P&I class free reserves increased from US$153.1 million to US$174.6 million, while FD&D and War class reserves totalled US$11.1 million and US$4.6 million respectively. Net assets increased by US$93 million to US$634 million for all classes. P&I class net assets were US$592 million, an increase of US$88 million over the previous year. Our financial performance for the year was determined by three key factors:

- High level of member claims
- Record level of Pool claims
- Continued strong investment performance







P&I CLASS INVESTMENT PORTFOLIO
AT 20 FEBRUARY 2007

1	Cash	15%
2	Up to 2 years	25%
3	2 to 5 years	12%
4	5 to 10 years	8%
5	Over 10 years	5%
6	Equities	35%

The underlying claims performance was disappointing. Following the benign claims year of 2005, the 2006 policy year produced gross members' claims 62% higher at the 12-month development point than for the previous year. Claims levels continued to be higher than expected post year-end, placing additional strain on the financial year. Claims declared to the International Group pooling arrangement by all members of the Group were at record levels in 2006-07, with the final figure expected to be in the region of US$500 million, far in excess of expectations. So far 27 claims have been reported, of which two smaller ones involve North of England. The ultimate cost to North of England is likely to be three times that forecast at the start of the policy year.

The difficult underwriting conditions produced a combined ratio of 127.9% (compared with 100.6% in the 2005 policy year). The excess Pool claims costs for 2006-07 contributed 17.6% to the Club's overall combined ratio.

Fortunately, the losses arising from underwriting during the year were more than offset by the returns from the Club's investment portfolio. The investment return for the P&I class for the 2006 policy year was 12.47% against a benchmark composite index of 11.23%.

A positive return of more than 6% in the bond market provided the backbone to the financial year's investment return. Strong performance by equity managers for the year, over and above the already bullish equity markets which returned 20.33%, gave additional momentum to the return from assets under management. Investment income and gains for the year were US$65.8 million (US$25.9 million in the 2005 policy year).

Yield volatility, reflecting uncertainty in the market over the future course of monetary policy in the US, was a feature of 2006. Yields spiked higher on fears that inflation pressures necessitated further tightening, then yields fell as the market was convinced that weakness in manufacturing and housing would damage the broader economy and the US Federal Reserve would need to ease several times to spark activity. Tighter policy has clearly shown results; the US housing market has been deflating for two quarters and many important commodity markets have been correcting since summer 2006.

With the exception of the Bank of Japan, most central banks around the world appear to have completed the transition from an accommodative to a neutral or even restrictive policy stance. It is anticipated that performance in the bond market for 2007 will be driven primarily by three factors: lower yield volatility associated with stable monetary policy, a supportive macro backdrop with slower though solid economic growth and contained inflation, and generally full valuations forcing bondholders to focus on security selection for the best returns.

The main driver of the outperformance in the equity markets during the 2006 policy year was stock selection, primarily in Europe and North America. The influence of mergers and acquisitions (M&A) activity was behind much of the strong European performance, while in North America performance was more stock-specific.

Stocks had a strong run from June 2006 through to February 2007 but they were always susceptible to a temporary correction after a meaningful rise – hence the falls and subsequent recovery of the equity markets during the first quarter of 2007. Many corporations today are healthy, with lean cost structures and profit growth that continues to surpass expectations. Robust earnings have resulted in reasonable valuations. This positive corporate environment is supported by favourable global economic conditions. Growth in the emerging markets remains strong, the US corporate sector is expected to weather a slowdown and, with the resurgence of the German economy, domestic demand growth in Europe looks sustainable. In Japan, corporate profits will ultimately find their way to the consumer and a firmer labour market is expected to trigger a revival in consumer spending.

The strong gains in the equity market over bonds resulted in a rebalancing exercise being performed during the year to bring our asset allocation in line with the long-term strategic asset allocation of 65% to bonds and cash and 35% to equities.

COMMITMENT TO OUR PRINCIPLES

The heightened claims activity of the 2006 policy year demonstrated the volatility in underwriting results that can occur in the P&I sector. North of England's steady progress towards technical balance has been impeded by the P&I market volatility in 2006-07 but we remain dedicated to the consistent application of our five key financial principles:

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

We are committed to the continued enhancement of the Club's financial strength. Our repeated emphasis on producing a break-even technical result was evident at the 2006-07 renewal, when our rating process focused specifically on inherent claims inflation and the financial risk from the Club's participation in the Pool.

The investment markets appear to be at a turning point. The interest rate cycle is expected to peak in the US during 2007 and this is likely to be closely followed by the UK and Europe. Prospects for bonds appear to be positive and the duration restriction applied to the fixed income portfolio four years ago has been removed to enable the Managers to take full advantage of the whole index duration.

Equity markets are entering what many consider to be a fifth year of a bull run. Prospects for corporate earnings appear to be strong globally and there continues to be substantial M&A activity. However, regulators and bodies such as the International Monetary Fund (IMF) are warning of increased levels of potential risk that could affect the global economy. They have warned of "unlikely constellations of risk" arising specifically from excessive leverage in the current private equity M&A boom, the application of lower credit standards and uncertainties arising from complexity in the plethora of alternative investments, financing products and syndication arrangements. Geopolitical factors add to the financial risks faced by the global economy.

Risk management is at the core of the Club's financial strategy and there are extensive systems and procedures in place to ensure that our operations anticipate the inherent and external risks in our financial planning and operations in underwriting, claims management, investment management and expense control.

Our continued objective is to maintain a pattern of underwriting balance without relying on investment income.

The Club continues to acknowledge and respond to escalating shipowner liabilities, increasing claims values and exposure to large and random losses. These continue to be the factors that exert a potent influence on P&I premiums.

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

REINSURANCE

KEY CHANGES IN INTERNATIONAL GROUP

The 20 February 2007 renewal brought a number of key reinsurance developments within the International Group of P&I Clubs. Individual club retention was increased from US$6 million to US$7 million, a move cautiously supported by North of England.

INTERNATIONAL GROUP REINSURANCE STRUCTURE 2007/2008

Overspill		Liability (shared by pool)	5,250 (approx)
Collective Overspill	1000	One reinstatement	3,050
Layer 3	1000	Unlimited reinstatements	2,050
Layer 2	500	Unlimited reinstatements	1,050
Layer 1	500	75% Unlimited reinstatements / 25% Co-insurance	550
Upper Pool	20		50
Lower Pool	23		30
Club retention	7		7

US$m (from the ground up)

The International Group's general excess of loss reinsurance contract was also restructured, to create an additional collective overspill protection layer of US$1 billion. The International Group's marine reinsurance contract was already the largest in the world – the purchase of this additional US$1 billion overspill reinsurance increased the contract by 50%.

After the extreme weather events in the US Gulf during 2005, which produced the world's largest ever insured loss, 2006 was a quieter year with regard to catastrophe insurance. Market conditions were therefore much easier.

However, this was an extremely tough year in terms of Pool claims, with the final figure expected to be in the region of US$500 million, significantly higher than ever before. On the positive side, the clear strength of the combined forces of the International Group and Hydra, its reinsurance captive, allowed the Group to move forward with confidence and remain insulated from any market reaction to the high claims.

The significant importance of the International Group and the cost-effective system through which it provides reinsurance amongst its member Clubs cannot be over-emphasised. The Group brings together over 90% of the world's tonnage, maximising reinsurance capacity and ensuring that it benefits from the best terms available.

Restructuring of the Group's reinsurance contract came into effect from noon on 20 February 2007. The adjusted Lower Pool will provide cover for US$23 million in excess of the individual Club retention of US$7 million and the Upper Pool, reinsured by Hydra, will provide cover for US$20 million in excess of the US$30 million Club retention and Lower Pool cover.

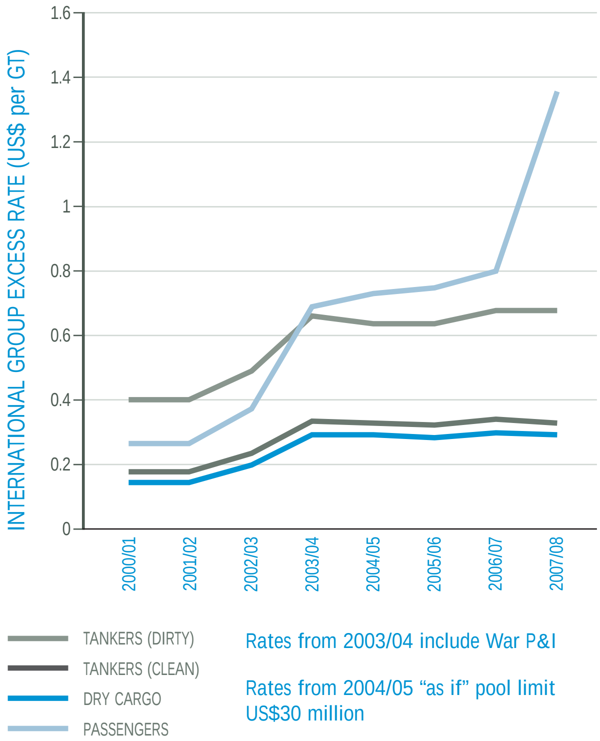
The previous four-layer general excess reinsurance programme has been restructured into three layers – two of US$500 million and one of US$1 billion, on top of which the group has arranged the new Collective Overspill Protection layer of US$1 billion.

Putting in place this additional US$1 billion of cover, and extending free and unlimited reinsurances up to US$2 billion, required substantial remarketing, with the result that approximately 20 new reinsurers joined the International Group product. The overall rating remained very competitive with the absorption of the additional level of cover.

The increase of Club retention to US$7 million is a development that we predicted would be necessary as a result of claims inflation. Discussions continue within the International Group as to whether a further increase in retention is necessary. Our view is that any decision should be made on the basis of sound and sensible economic analysis.

There have been emotive arguments suggesting that a higher retention would encourage more disciplined underwriting but this is not a view that we share; we have yet to see evidence that higher retention does lead to more disciplined underwriting or, indeed, that more disciplined underwriting leads to more freedom from Pool claims.

North of England instinctively supports a mutual sharing of risk amongst Clubs as the most cost-effective process; we do not support increases in the individual Club's retention for the sake of it, but we remain prepared to listen to cogent arguments and sound economic reasoning.



PASSENGER LIABILITY

Another very significant development from 20 February 2007 has been the introduction of a limit of cover by the International Group of US$3 billion in respect of passenger and crew claims, with a separate sub-limit of US$2 billion in respect of passenger claims only. We believe this is a fair and pragmatic solution which will help to safeguard the P&I mutual system.

Also connected to this was the reallocation of reinsurance costs across the various ship types, to be more fully reflective of historical record and potential exposure.

MORE RISK, LESS DEPENDENCE

North of England's own reinsurance strategy for retained claims and non-poolable risks is based on the absorption of more risk and reducing dependence on commercial reinsurance, where appropriate and cost effective. The significant growth of the Club in recent years has led to the development of a more mature and stable risk profile, which eliminates considerable low-level claims volatility. As a result North of England has recently redesigned its retention reinsurance product to absorb more retained risk, in exchange for premium efficiencies. This process is on-going and will be the subject of further review during the year, together with a strategic review of the Club's charterers and non-poolable reinsurances.

We believe in equitable and long-lasting relationships with our reinsurance partners to support and further the strategic aims of the Club.

MEMBERSHIP

QUANTITY BUT ONLY WITH QUALITY

North of England has continued to make significant progress with the Club's total entered tonnage increasing considerably. This has allowed for further membership refinement, increased premium income and enhanced terms of entry. This was another successful year in which the Club continued to meet the goals detailed in our previous reports. At 20 February 2007 the total tonnage entered with North of England had increased to 70 million GT, from the previous year's position of 62 million GT. This represented a 15% growth in mutually owned tonnage over the 12-month period, while the total number of ships on risk rose by 8.7% to 3,100.

We were delighted to secure entries from 13 new members from regions as geographically diverse as Germany, Greece, India, the Netherlands, South Korea and Switzerland during the 2006 policy year.

At the 20 February 2007 renewal, movement of tonnage from other International Group Clubs brought 15 new members to North of England, including owners from China, Cyprus, Germany, Greece, the Netherlands, Oman, Singapore, the UK and the US. These 15 owner members added 1 million GT and more than 50 ships at 20 February, with further considerable tonnage development expected.

In total, more than 1.8 million GT of tonnage was added at renewal by new and existing members, while 800,000 GT was not renewed.

As in previous years, underwriters took the opportunity to refine further the Club's membership portfolio and 44 ships entered by 13 shipowners were not renewed. Of those, six fleets were not offered renewal terms and underwriters could not agree terms with a further seven shipowner members, who left the Club.

The geographical spread of business altered slightly throughout the year, as it does continuously, but it remains similar to previously published statistics and in accordance with the Club's strategy. Areas which have seen significant increased entered tonnage include Germany, Greece and the US. The present geographical spread by GT is: Northern Europe 24%, Southern Europe 24%, Far East 20%, Middle East 15%, Scandinavia 11%, North America 5%, and others 1%.

By ship type there is also little change with bulk carriers, tankers and containerships making up the majority of the total entered tonnage. Detailed analysis of the total entered tonnage of the Club reveals: Bulk carriers 36% (30% by number), tankers 33% (23%), containerships 21% (17%), ro-ro ships 4% (7%), general cargo ships 3% (10%), and others 3% (13%).

The Club has seen considerable organic growth during the year and tremendous membership support. However, we have continued our process of selective, cautious development in line with our strict underwriting guidelines and in following these, the underwriters have declined numerous new business enquiries. Meanwhile, the organic growth has taken place against a backdrop of our strong service ethos, mutual support and reliable, robust service excellence.

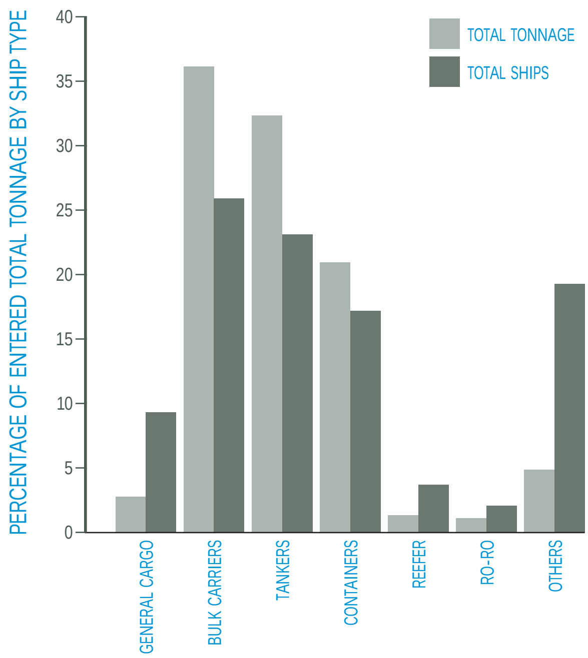
The Club has also enjoyed strong support from the marine insurance broking community and we continue to work closely with brokers from around the world to provide high-quality and cost-effective service to our ever-increasing membership.

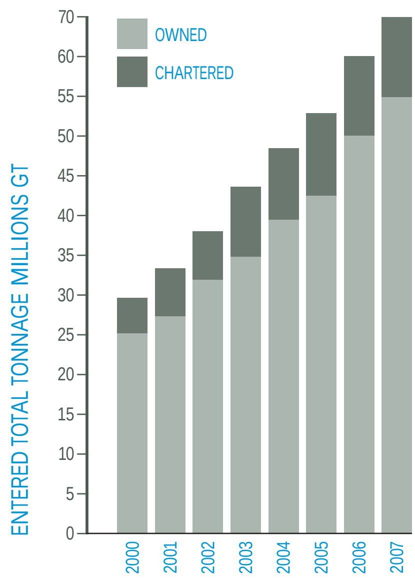
The quality of new owners attracted to North of England continues to increase and several high-profile, high-quality shipowners from around the world have decided to enter ships with us. The Club is as comfortable with high-quality small to medium-size owners as it is with the many major shipowners and corporate entities that have entered tonnage in recent years.

North of England is recognised as one of the strongest Clubs within the International Group. Commitment to service, membership quality and financial strength, as described elsewhere in this report, have been fundamental to our growth and success in recent years.

We see our offices as an extension of our members' offices. Service and high-quality club-member relationships are key to our success.

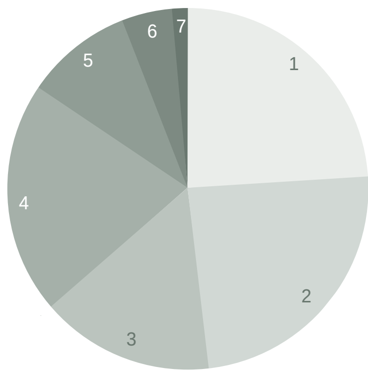
That service commitment will be vigorously enforced and further enhanced where and whenever possible as we continue to meet the P&I needs of the world's best shipowners.





TOTAL ENTERED TONNAGE
(BY AREA OF MANAGEMENT)

1	Northern Europe	24%
2	Southern Europe	25%
3	Middle East	15%
4	Far East	18%
5	Scandinavia	12%
6	North America	5%
7	Others	1%



P&I CLAIMS

P&I VOLATILITY AND THE UNDERLYING CAUSES

The P&I claims team handled 4,713 member claims, of which 25 claims are estimated to exceed US$1 million. The vast majority of claims, some 4,665 representing almost 99% of the total number of claims reported, fell below US$500,000. Conversely, 1% of the total number of claims cost US$88 million, almost 50% of the total cost of member claims in 2006.

The 2006 policy year demonstrated the volatility in P&I claims costs. While 2005 was a relatively favourable year in respect of claims, showing reductions in both claim numbers and the incidence of large claims, both the 2004 and the 2006 policy year performed badly. The overall number of claims continued to fall but there was a significant increase in the number of large claims. This experience was shared by almost all the Clubs in the International Group, with Pool claims in 2006-07 being at their highest recorded level by a significant amount.

It is difficult to reach any firm conclusions on the reasons for this increase in claim values. We believe that the rapid growth of the world fleet coupled with a severe shortage of experienced seafarers is one key factor. Poor standards of maintenance and consequent mechanical breakdowns are also key causative factors.

There has been a great deal of comment and speculation regarding the competence of crews and whether this is a significant factor in the increased exposure to claims. If crew competence is an issue, one might expect this to have an impact across all levels of claims – resulting in an increase in claim numbers overall. This, in North of England's experience, is not happening. Why, then, are we seeing an increase in claim values? It is tempting to suggest that many of them are simply a matter of bad luck. There is certainly an element of this in many of the claims, in that the consequences of the incident would not have been so significant had it not been for a particular set of circumstances.

It is appropriate to consider whether anything could or should have been done to minimise the consequences of an incident. Is the training received by crews so focused on running ships in accordance with procedures laid down in various manuals, that when an incident occurs for which there are no specific procedures, the crew does not have the training, initiative or experience to be able to think independently?

The amount of sea time required to obtain qualifications has significantly reduced in recent years. There have been a number of incidents over the past year where relatively minor problems with a vessel have developed into claims which could have been much smaller if basic procedures had been undertaken – or if simple common sense had been applied.

In an ideal world perhaps some of these incidents could have been avoided if more time had been made available during periods in port. However, this is not an issue which can be addressed by shipowners alone. Shipowners are constantly threatened with financial penalties both by charterers and, more worryingly, port authorities, if vessel turnround is not kept to a minimum. In the circumstances, even if there is a willingness to consider ways of making more time available for crews, this issue must be addressed by all interested parties.

The experience of recent claims suggests that the issue of training and competence is not related solely to vessel crews. The shortage of seafarers will inevitably have an effect on the availability, experience and competence of vessel superintendents and other shore staff who are a vital part of ship operations.

RECRUITMENT CONCERNS

Issues of competence, experience and training are obviously of concern to insurers because of the potential direct effect on claims. However, there are other areas of concern. We are already experiencing difficulties in finding suitably experienced surveyors to advise members and the Club in the event of claims. Many of those surveyors are now approaching the end of their careers. Survey companies have been experiencing recruitment difficulties in recent years and any shortage of experienced seafarers will add to these problems. This is also likely to result in increased costs to the Clubs, as survey companies have to offer higher salaries in order to attract staff.

LOSS PREVENTION WORKING PARTY

Naturally, the Club's loss prevention efforts tend to focus on issues which are highlighted as a consequence of claims. We recognise that there may be many situations that do not necessarily result in claims – but could easily do so. In recognition of this, we have now formed a loss prevention working party with representatives drawn from the membership to work with the Club to develop loss prevention ideas together.

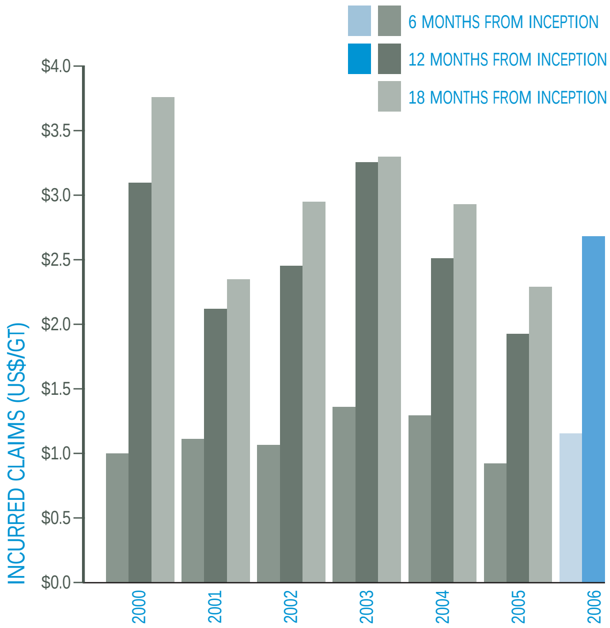
In last year's management report we highlighted the incidence of Admiralty-type claims and their volatility. Interestingly, the 2006 policy year saw a significant fall in the number and value of Admiralty claims but a significant increase in the number of high-value cargo claims. There were 25 claims conservatively estimated to be in excess of US$1 million, 16 of which were cargo claims. These included two incidents involving loss of containers from container vessels, which alone accounted for about 30% of the cargo claims over US$1 million. While containerised transport probably has the effect of reducing cargo claims arising during the ordinary course of transport, the high value of some of the cargo does lead to significant liabilities in the event of a major incident.

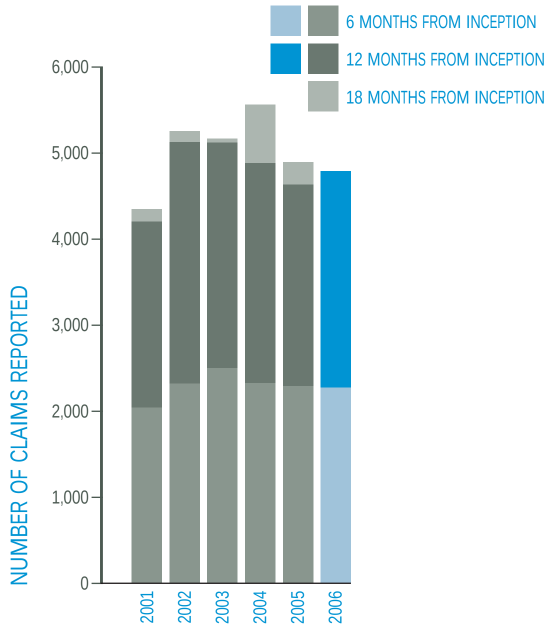
As well as factors over which vessel operators could be said to have some control, the Club continues to face difficulties relating to the jurisdiction in which claims arise. The largest pollution claim during the year under review involved a spillage of fuel oil from a containership after it made contact, whilst under pilotage, with a poorly protected entrance to a dry dock in China. The Chinese authorities have indicated that claims are likely to be in the region of US$15 million.

P&I ONLY: NUMBER OF CLAIMS BY VALUE, EXCLUDING POOL CLAIMS
12 MONTHS FROM INCEPTION

	2001	2002	2003	2004	2005	2006
OVER $2.0M	2	3	11	9	7	11
$1.0m - $2.0m	4	8	10	14	6	14
$0.5m - $1.0m	14	22	24	21	18	23
$0 - $0.5m	4,196	5,080	5,137	4,768	4,465	4,665
TOTAL	4,216	5,113	5,182	4,812	4,496	4,713

P&I claims breakdown by value





The International Tanker Owners Pollution Federation (ITOPF) has been engaged to help evaluate clean-up costs but has had great difficulty in gaining access to the affected areas and obtaining information on clean-up measures and damage calculation – although its general view is that the figure is grossly inflated. Similar problems have been experienced by other International Group Clubs relating to spills in the Suez Canal and the Ukraine where damages are being calculated by formula rather than by an assessment of actual loss.

There were positive developments in some jurisdictions during the year, with the authorities in one country recently agreeing to accept Club letters as security in place of its previous requirement for bank guarantees or cash security. In other jurisdictions, discussions with cargo insurers and receivers both at Club and International Group level addressed some of the issues which create difficulties between the parties.

The International Group Claims Co-operation Committee was instrumental in addressing a number of these difficult issues. The committee, which has an increasingly important role to play, was established following a campaign by the Club and its members.

Although the balance of large claims within the Club in 2006 has shifted from Admiralty to cargo, a review of the International Group Pool claims in 2006 shows that over 70% of these were Admiralty-type claims, of which nearly 50% involved groundings. Recent figures from the International Union of Marine Insurers indicate that groundings have accounted for over 25% of all serious hull losses over the past four years. While many of these incidents were a consequence of navigational errors, there were a number in which mechanical failure prior to the incident was an issue.

On a rising tide of claims and costs P&I Clubs face two critical issues: crew competency and, increasingly, hostile and difficult jurisdictions.

RISK MANAGEMENT

THE HOLISTIC APPROACH

North of England takes a holistic approach to risk management by integrating its loss prevention and survey functions within the same department and emphasising their interdependence.

A regular look at the condition of ships ensures that they fit with our quality profile. The loss prevention function provides a service for the people involved in the operation of ships. This dual role has benefits for staff, enabling them to call upon and share a wide range of knowledge and experience – particularly useful when providing advice or answering members' queries.

The key to best practice in loss prevention is to base the process of risk assessment on good quality information. The starting point is to gather information about new issues, claims trends, problems with ship types, particular cargoes or geographical areas. Keeping up-to-date with the relentless flow of new legislation is difficult, time-consuming and an area in which we can offer significant help to our members. Information about potential problems and proposed solutions, can then be circulated.

North of England's loss prevention strategy is to provide direct support to individual members – often we are their first port of call – while continuing to provide general loss prevention information to the membership as a whole and focus on longer-term projects such as publications and training.

We believe it is important to circulate information in paper form, particularly to ships, as advice contained in publications such as the loss prevention guides can then be taken off the shelf for immediate reference. However, it is recognised, that some members often have a more urgent need to be kept up to date with current issues. We have therefore been improving our electronic information services over the past year, with the enhancement of website-based industry news and the introduction of a monthly e-newsletter summarising current issues, as well as an RSS feed that allows members' staff to receive new items directly via the Internet.

The second level of loss prevention service provides more direct support for individual members. In its simplest form, this involves answering queries from members by e-mail or by telephone. The more proactive side of this service includes organising seminars, training courses and workshop programmes. These courses, designed to meet a member's particular needs, can be delivered at the member's office to both shore and sea staff.

North of England's risk management team, supported by staff in other parts of the Club, visited more than 50 members' offices in 2006 to deliver seminars and workshops. The personal relationships built up between members and our staff are vitally important; they help to create a firm foundation for working together, based on a mutual understanding of each other's organisations. The Club can also provide a structured programme of in-house training at its Newcastle head office for members' staff.

An issue causing concern throughout the industry is the difficulty that shipowners are facing in recruiting competent experienced seafarers and the effect that this may have on the efficient operation of ships and subsequent claims. Admiralty claims, including collisions and damage to property, are a particular concern in this respect and aspects of bridge management and pilotage will be one of the Club's main loss prevention themes in the coming year.

It is very important to ensure that the loss prevention service provided by the Club meets members' needs. We have recently formed a loss prevention working party to look at ways of better identifying areas of need and how the service can meet them. This group held its inaugural meeting in March and will play a key role in advising on loss prevention strategy and projects in the future.

An efficiently targeted survey programme is at the forefront of North of England's commitment to ensure that membership quality is maintained at a high standard. Routine surveys of ships are carried out according to the harmonised requirements of the International Group. Additional surveys may be carried out on ships that have been detained by Port State Control or involved in other incidents. These surveys are not intended to replace or replicate those carried out by classification societies or port state but are focused instead on the risks associated with P&I and loss prevention measures that can be taken to control those risks. Such inspections carried out by independent surveyors can also help members to prepare for inspections and audits by other bodies.

North of England has adopted the International Group's condition survey form. This is an electronic form used by a number of the leading Group Clubs; as well having the advantage of consistency across the surveys carried out by different P&I Clubs, it offers further benefits to all parties in terms of efficiency and securing best value from the surveyors undertaking this vital work.

The effectiveness of our risk management programme is sometimes difficult to gauge – it is hard to measure incidents and claims that have not happened – but we continue to believe that well-targeted loss prevention initiatives contribute significantly to claims avoidance.

NORTH OF ENGLAND'S LOSS PREVENTION STRATEGY IS TO PROVIDE DIRECT SUPPORT TO INDIVIDUAL MEMBERS.

FD&D

VALUING GOOD ADVICE

Although there was some freight market volatility during the 2006 policy year, the widely anticipated slide in dry bulk freight rates did not materialise during the second half of the year.

- 1,650 vessels and 45 million GT entered for FD&D
- FD&D free reserves increased to US$11.1 million

A total of 1,088 claims were notified in the 2006 policy year as against 996 the previous year, representing an increase of just over 9%. The number of general enquiries was almost completely flat at 1,396 compared with 1,386 the year before. The decline in the level of general enquiries relative to the number of ships entered in the FD&D class may well be a reflection of the increased sophistication, as well as stability of, the membership of the Club. However, claims volumes remained at a high level, with a marked increase in potential time charterparty withdrawal situations when compared with previous years.

Whenever the freight markets move sharply upwards or downwards, our members experience an increase in disputes relating to the legitimacy of last voyage orders, with charterers either keen to hang on to vessels (when the market is rising) or keen to redeliver them early (when the market is falling) – and we did see a number of disputes of this type.

There was also an increase in the number of disputes relating to whether a particular cargo is one which a member is contractually obliged to carry, or whether it is a dangerous cargo and therefore excluded under the terms of the charterparty. In particular, the extraordinary price increases for some commodities have led to a greater pressure on carriers to agree to carry cargoes in a potentially dangerous state. The prime example of this has been nickel ore which, if the total moisture content is too high, can liquefy – posing a threat to the stability and safety of the vessel, its crew and cargo.

The 2006 policy year also saw a significant number of bunker quality disputes, which invariably are a reflection of high bunker prices. Hold cleaning disputes as well as stevedore damage disputes continue to be a frequent cause of confrontation between owners and charterers, regardless of freight market conditions.

As in the previous few years, the average amount of money in dispute in FD&D type claims has continued to increase. Given that these claims relate to uninsured liabilities, the outcome of such disputes will have a direct impact on members' profit and loss statements. This has underlined the importance that we place on providing members with first-class advice in assessing the merits and evidence in support of a member's position in each case.

Helping members to have an accurate view of their position and to deal with matters expeditiously are key elements of the in-house FD&D service which we provide.

SALE & PURCHASE (S&P) DISPUTE SEMINARS

Members will recall that the widely anticipated downturn in freight markets was expected to generate greater volatility in the second-hand S&P market, leading to a high level of S&P claims. With this in mind, North of England initiated a programme of seminars on how to avoid S&P disputes. A number of these were presented in 2005 and the programme continued during the 2006 policy year. Seminars were organised in Hamburg, Dubai, Singapore, Hong Kong and Monaco and all were very well attended by members, brokers and potential members.

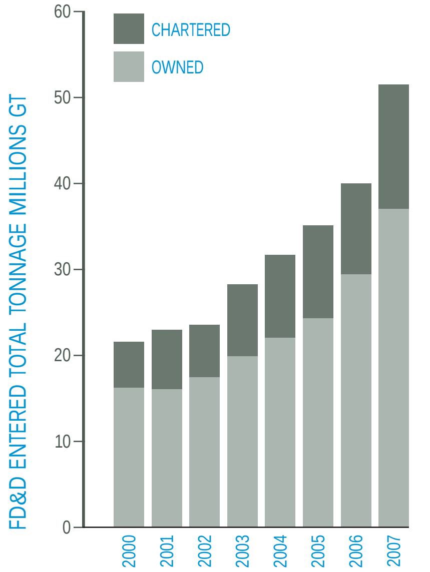
As in the previous year, each seminar's main purpose was the clear demonstration of the loss prevention strategies that prudent buyers and sellers should follow in order to protect their positions and avoid disputes.

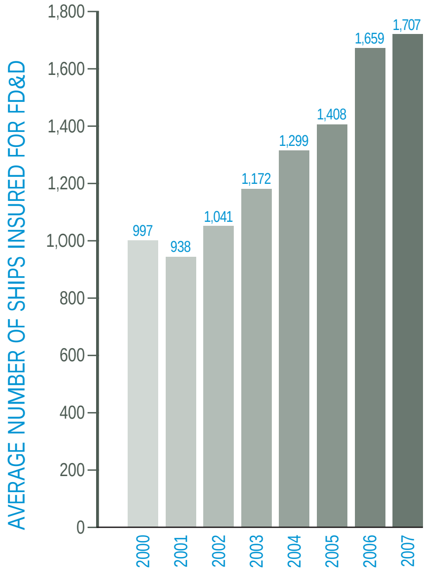
Whilst it is, as always in these situations, impossible to prove any causal link, we note that North of England members did not suffer from the anticipated increase in dispute numbers. We hope that this is partly due to our seminar series.

FD&D FINANCES

A healthy investment return of 8.1% proved more than enough to balance out an increase in claims liabilities caused by the higher number of claims. FD&D reserves therefore increased from US$10.8 million to US$11.1 million as at 20 February 2007. In anticipation of this result and in view of the continuing relative stability in freight markets, the directors of the Club set, for the second year running, a modest general increase of only 2.5% for the 2007 renewal.

The fact that the Club continues to handle about 90% of all English law FD&D claims in-house also undoubtedly contributes to this premium stability. With this in mind and in view of the continuing increase in ship numbers entered in the FD&D class, we have once again increased the number of lawyers employed by the Club. A further three FD&D lawyers will join the department in the coming months. A critical part of our service to members is ensuring that they can obtain first-class advice and assistance without delay.


FD&D ENTERED TOTAL TONNAGE MILLIONS GT
CHARTERED
OWNED
0
10
20
30
40
50
60
2000
2001
2002
2003
2004
2005
2006
2007


AVERAGE NUMBER OF SHIPS INSURED FOR FD&D
0
200
400
600
800
1,000
1,200
1,400
1,600
1,800
997
938
1,041
1,172
1,299
1,408
1,659
1,707
2000
2001
2002
2003
2004
2005
2006
2007

INDUSTRY ISSUES

GROWTH OF THE WORLD FLEET

The world fleet has grown in terms of tonnage by an average 2.3% per annum over the period 1987-2007. This rate of growth accelerated to more than 6% in 2006 – a rate that is likely to be sustained throughout 2007 and 2008, with over 58 million GT of newbuildings scheduled for delivery during the course of 2007 alone.

This growth in the world fleet has been supported by an increase in trade from 871 million tonnes to 1.7 billion tonnes over the same 20-year period. While there was a period following the mid-1970s during which the number of ships exceeded the available cargoes, that balance has now reversed and this has led to the freight market boom of the past four years.

It would be fair to say that the current freight rate cycle has lasted longer than even the most optimistic forecasters anticipated. This has had a significant knock-on effect in terms of high ship utilisation and a tendency to retain ships within the same ownership longer than originally planned. The 2005 policy year was characterised by abnormally low claims levels but the same cannot be said for 2006-2007. One possible explanation is that notwithstanding the increased scrutiny to which ships are now subject through Port State Control, flag state inspections, P&I and classification society surveys, maintenance regimes are now under much more pressure than they have been in recent history. High freight rates lead to high utilisation rates and this places huge demands on both ships and crew.

A DEVELOPING INDUSTRY

All sectors have benefited from the growth in tonnage and freight rates – but some more than others. For example, since 1985 the container market share in terms of total gross tonnage of the global fleet has risen by 9%, but interestingly, the tanker market share has reduced by roughly the same amount, because the overall increase in gross tonnage has not been so rapid in this sector.

Then there are the emerging sectors, with the gas market share of global GT growing by 1% over this period but forecast to take a much larger share in the years ahead. Similarly, the cruise industry's share of the market is growing relative to other sectors.

The way in which the various Clubs of the International Group respond to these changes will undoubtedly define their future. Certain sectors that are growing bring with them liabilities that are distinct from those to which the shipping industry has historically been exposed. Clubs must consider whether it is appropriate that those distinct liabilities continue to be insured within the International Group reinsurance programme. This is particularly the case with the cruise ship industry, where consumer demands for larger ships carrying more and more passengers, coupled with a liability regime that obliges the shipowner to compensate passengers irrespective of fault, prompted the International Group to cap liabilities for total passenger and crew claims at US$3 billion from 20 February 2007.

Although the 2002 Protocol to the Athens Convention does not yet have the requisite number of signatories to give it legal effect, its entry into force is likely to come about next year when the European Union ratifies the treaty *en bloc*. Ratification of an international maritime treaty has not been done in this way before; this is significant because it means that if in future the EU (or any other similar supra national body) chooses to back a treaty, its entry into force is effectively guaranteed and will happen much more quickly than has previously been the case.

Recognising the significance of this development, the International Group now focuses much of its lobbying efforts upon the European Commission and Parliament.

Another area of significant growth is the gas carrier sector – particularly liquefied natural gas (LNG). Until recently, shipping of LNG was wholly subordinate to the extraction project which the vessels had been built to serve. The recent speculative construction of a number of these vessels by independent operators represents a significant development in the LNG trade which will undoubtedly lead to a reduction in shipping costs. At the same time, and because many of these newer LNG vessels were built with the flexibility to serve a number of markets, the operational variables that need to be considered when managing the project have increased. That, in turn, will lead to a small but commensurate increase in risk. This year, for example, the industry has seen the first LNG ship-to-ship transfers taking place, first in the Gulf of Mexico and then in Scapa Flow in the Orkney Islands.

NEW LEGISLATION

The increase in sea trade and ship numbers has been matched by a broadening of the scope and an increase in the complexity of the regulatory framework for shipping. Looking to the future, there are many additional factors which are likely to have a bearing on the number and size of P&I claims.

This year much of the International Group secretariat's attention has been focused upon the Third Maritime Safety Package, currently being developed by the European Union.

The expression "Safety Package" could be viewed as something of a misnomer. Many of the proposals are aimed at improving safety through increased liability and the loss of rights to limitation of liability in respect of claims which are not already subject to International Conventions, such as Hazardous and Noxious Substances (HNS) and bunkers. It is also proposed that there should be a right of direct action against liability insurers.

Unfortunately, a significant proportion of the provisions of the various directives are not in accordance with International Conventions, despite the recognition by some Members of the European Parliament (MEPs) that this would be the most appropriate position to adopt.

There are a considerable number of legal and practical problems with the proposals as they currently exist. In the circumstances, further work will be required in the drafting of directives. It is also clear that there remains considerable disagreement between the European Parliament and the European Commission in respect of the issues. The International Group secretariat will continue to seek a more balanced final position.

One of the major concerns with regard to these and other European developments is that they will fragment the International Convention system with a disproportionately small benefit to the community at large.

Meanwhile, the new UNCITRAL draft Carriage of Goods by Sea Convention may well be finalised and adopted towards the end of 2008, although it may be some time thereafter before it is ratified by enough states to come into force. There is no doubt that the Convention will increase shipowners' responsibilities and liabilities in relation to carriage of cargo and present new challenges for shipowners in negotiation of their contractual relationships. In particular, the long-established exclusion of nautical fault will be lost in its entirety.

Moves are also afoot to revise the rules applicable to member states of the EU for deciding upon the applicable jurisdiction ("Rome 1") which will apply both to claims and to the underlying contract of insurance between the underwriter and the assured.

The general application of legislation drafted to cope with all European contracts to marine litigation creates real risks of outcomes that can only be described as absurd and are certainly not in the interests of either the consumer or member states. For example, under the current draft revision to Rome 1, the law governing a contract of insurance between member and Club would change as the vessel traded between the different member states of the EU.

Given the scale of the liabilities covered by a vessel's P&I insurance, the ambiguities this would create would almost certainly promote litigation and slow the payment of compensation. Similarly, the proposed revisions could mean that the law determining the liability of a shipowner following an accident could be that of the vessel's flag state, unless insurance in respect of the liability that has arisen is compulsory – in which case it will be the law of the jurisdiction in which the claim arose.

Such inconsistencies benefit neither the consumer nor the shipowner. Shipowners have demonstrated time and time again that they stand ready to meet their proper liabilities but in so doing they are entitled to expect that such liabilities are dealt with in a consistent and uniform manner, rather than being subject to the vagaries of national legislation.

COMPETITION

On a more positive note, changes to European competition law will mean that P&I Clubs will not now be subject to the detailed analysis of their competitive position undertaken by the European Commission between 1997 and 1999. Instead, it will now be for any party objecting to the business practices of the Club to demonstrate that those practices fall outside the scope of the exemption granted by the European Commission in 1999. While Clubs will be obliged to ensure that their practices continue to fall within the scope of the 1999 decision, they will not have to devote their resources to a full-scale investigation by the EU.

Recent proposals in relation to the application of Article 82, which prohibits the abuse of a dominant position, are also likely to work in Clubs' favour, because of the importance they attach to the hypothetical "as efficient competitor". The Clubs have always welcomed competition but the reality is that there is relatively little incentive for competitors to enter an industry which is predominantly structured on a non profit-making basis and which constantly looks for ways to extend the cover it offers to meet the developing needs of its customers.

COMBINED FINANCIAL STATEMENTS

The financial statements of North of England P&I Association Limited ("NEPIA") and North of England Mutual Insurance Association (Bermuda) Limited ("NoE (Bermuda)") collectively "the Associations", are published separately. Financial Statements which combine the results and financial position of the UK and Bermuda Associations follow on pages 28 to 48. All Members are Members of both Clubs and the combined financial statements have been prepared to allow Members to gain a picture of the overall position. The statements have been prepared for illustrative purposes only and have no legal standing. The return to the Financial Services Authority is based upon the combined position.

Any reference to the Club in the preceding narrative relates to the combined position.

ACCOUNTANTS' REPORT

Accountants' Report to the Members of North of England P&I 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 2007 ("the combined financial statements"). Our engagement was undertaken in accordance with the International Standard on Related Services 4400 "Engagements to perform agreed upon procedures". The procedures were performed solely to assist the Directors with the preparation of 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's and NoE(Bermuda)'s Directors are responsible for the preparation of the combined financial statements and the policy year statement.

It is our responsibility to carry out the procedures below designed to enable us to report as to whether the combined financial statements and policy year statement have been properly extracted from the financial statements of NEPIA and NoE(Bermuda) for the year ended 20 February 2007.

Agreed upon procedures

We have performed the procedures enumerated below with respect to the combined financial statements 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 2007. The auditor's report on the statutory consolidated financial statements of NEPIA was issued by ourselves on 21 May 2007 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 2007. The auditors' report on the statutory financial statements of NoE(Bermuda) was issued by ourselves on 23 May 2007 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.

Findings

We report that:

a. With respect to items 1 and 2 we found that the combined financial statements and policy year statement have been properly compiled from the statutory financial statements of NEPIA and NoE(Bermuda);

b. With respect to item 3 we found that the combined financial statements working papers, including the policy year statement, are numerically accurate; and

c. With respect to item 4 we found that consistent accounting policies have been adopted by NEPIA and NoE(Bermuda).

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the combined financial statements and policy year statement as at 20 February 2007.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

Ernst & Young LLP
London
21 May 2007

(All Amounts in US Dollar thousands unless otherwise stated)

COMBINED BALANCE SHEET FOR THE YEAR ENDED 20 FEBRUARY 2007

	Note	2007	2006
ASSETS			
Intangible assets		1,390	1,162
Property, plant and equipment		15,875	14,053
Financial assets			
Equity securities – at fair value through income	3	202,673	186,487
Debt securities – at fair value through income	3	314,769	247,311
Loans and receivables including insurance and reinsurance receivables		14,271	13,099
Derivative financial instruments		184	-
Retirement benefit asset		16,715	9,831
Reinsurance contracts	5	120,080	77,398
Cash and cash equivalents	4	85,529	96,163
Total assets		771,486	645,504
ACCUMULATED SURPLUS			
Income and expenditure account		(63,343)	(49,030)
Contingency funds	12	245,657	210,688
Revaluation reserve		7,927	6,347
Total accumulated surplus		190,241	168,005
LIABILITIES			
Insurance contracts	5	563,781	450,498
Reinsurance payables		7,294	7,110
Cash and cash equivalents		-	3,310
Financial liabilities - Borrowings		-	3,322
Derivative financial instruments		-	324
Trade and other payables		9,501	10,437
Retirement benefit obligations		-	1,842
Current tax liabilities		669	656
Total liabilities		581,245	477,499
Total accumulated surplus and liabilities		771,486	645,504

(All Amounts in US Dollar thousands unless otherwise stated)

COMBINED INCOME STATEMENT AT 20 FEBRUARY 2007

	Note	2007	2006
Insurance premium revenue		193,535	177,117
Insurance premium ceded to reinsurers	6	(28,631)	(23,991)
		164,904	153,126
Investment income		2,353	1,474
Net fair value gains at fair value through income	7	53,775	29,482
Net income		221,032	184,082
Insurance claims and loss adjustment expenses	8	(228,920)	(125,173)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	49,201	(5,766)
Net insurance benefits and claims		(179,719)	(130,939)
Expenses for the acquisition of insurance and investment contracts	10	(16,670)	(15,506)
Expenses for marketing and administration	11	(10,809)	(7,341)
Expenses for asset management services rendered		(1,527)	(1,323)
Expenses		(208,725)	(155,109)
Results of operating activities		12,307	28,973
Finance income		9,631	-
Finance expenditure		-	(5,057)
Surplus before tax		21,938	23,916
Tax expense		(1,282)	(847)
Surplus for the year		20,656	23,069

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these combined financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 BASIS OF PRESENTATION

These combined financial statements do not constitute North of England P&I Association Limited's ("NEPIA") statutory accounts for the years ended 20 February 2007 and 20 February 2006. They are the non-statutory combined financial statements of NEPIA and North of England Mutual Insurance Association (Bermuda) Limited ("NoE Bermuda").

These combined financial statements have been prepared in accordance with recognition, measurement and presentation principles of International Financial Reporting Standards (IFRS's) as adopted for use in the European Union (and therefore comply with Article 4 of the EU IAS Regulation). However, whilst the financial information included in these combined financial statements has been computed in accordance with IFRS's, these financial statements do not themselves contain sufficient information to comply with IFRS's and UK company law.

The combined financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial instruments.

The Associations have also adopted the corridor method under IAS 19 'Employee Benefits', recognising a portion of the scheme's actuarial gains and losses as income or expense as required under the standard. The Associations have applied the amended IAS 19 taking into account amendments to paragraphs 32A, 34, 61 and 121.

At the date of authorisation of these financial statements, the following Standards which have not been applied in these financial statements were in issue but not yet effective:

IFRS 8 "Operating segments".

The Directors anticipate that the adoption of this standard in future will have no material impact on the financial statements of the Association except for additional disclosures on segmental information when the relevant standard comes into effect for periods commencing on or after 1 January 2007.

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Companies' accounting policies.

1.2 COMBINATION

The combined financial statements combine the consolidated financial statements of NEPIA and the financial statements of NoE(Bermuda) made up to 20 February each year.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by NEPIA.

All intra-group transactions, balances, income and expenses are eliminated on consolidation or combination.

1.3 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The combined financial statements are presented in thousands of United States Dollars, which is the functional currency of NEPIA and NoE(Bermuda).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through income, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as land and buildings, are included in the revaluation reserve.

1.4 PROPERTY, PLANT AND EQUIPMENT

Land and building is comprised of the office occupied by NEPIA. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to NEPIA and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve. Decreases that offset previous increases of the same asset and other decreases are charged to the revaluation reserve in the first instance.

Depreciation on property, plant and equipment is calculated to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Land	No depreciation charged.
Buildings	2% per annum reducing balance method.
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.

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

An asset's carrying amount is written down immediately through the Income Statement to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

1.5 INTANGIBLE ASSETS

Costs in respect of major software developments are capitalised. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the balance sheet and amortised over the expected life of the software of up to 5 years.

1.6 INVESTMENTS

Financial assets at fair value through income

The Associations classify their investments as financial assets at fair value through income. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date. Financial assets at fair value through income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through income category are included in the Income Statement in the period in which they arise.

Regular purchases and sales of investments are recognised on trade date, the date on which the Associations commit to purchase or sell the asset. Investments are initially recognised at fair value. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Associations have also transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices.

NOTES TO THE ACCOUNTS CONTINUED

Derivative financial instruments

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

Loans & receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Associations intend to sell in the short term or that they have designated as at fair value through income or available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

1.7 IMPAIRMENT OF ASSETS

The Associations assess at each balance sheet date whether there is objective evidence that a financial asset or non financial asset is impaired. An asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the Associations about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow or carrying amount from an asset or group of assets since the initial recognition of those assets.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Income Statement.

1.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

1.9 REVENUE AND EXPENSE RECOGNITION

Premium income

All elements of revenue arising from insurance contracts and other related services offered by the Associations are recognised on an accruals basis in the accounting period in which the contract is related or services are rendered. The Associations policy years run from noon GMT on any 20 February to noon GMT on the next following 20 February. The Associations financial years are coterminous with their policy years.

Reinsurance premiums and recoveries

Reinsurance premiums, less returns, are charged to the Income Statement on an accrual basis, including a provision for the future expected costs of adjustments to the premium due under existing reinsurance policies. Recoveries under policies purchased by the Associations are accrued so as to match the relevant gross claims and associated provisions and reserves upon which the Associations are entitled to make recoveries.

(All Amounts in US Dollar thousands unless otherwise stated)

Claims and related expenses

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt.

Claims reserves are estimated on an undiscounted basis. Any changes to the amounts held are adjusted through the Income Statement. Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of handling those claims. This is estimated based on past experience and current expectations of future cost levels.

Although the claims reserves are considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections), case by case reviews of notified losses and on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events.

Interest

Interest comprises interest on cash deposits and interest bearing securities and is recognised on an accruals basis.

Finance charges

NEPIA purchased the land and buildings of the office in Newcastle by way of a mortgage. Interest is payable on the mortgage and charged to expenditure on an accrual basis using the effective rate method.

Employee benefits

Salaries and other employee benefits, including holiday pay, are accounted for on an accrual basis. Payments to staff under the discretionary staff performance related bonus scheme are accounted for in the financial year in which they are awarded.

Retirement benefit scheme

NEPIA operates a pension scheme providing benefits based upon final pensionable salary, known as a defined benefit scheme. The assets of the scheme are held separately from those of NEPIA, being invested with professional managers.

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. In accordance with IAS 19, NEPIA recognises a portion of the scheme's actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the preceding reporting period exceeded the greater of (a) 10% of the present value of the defined benefit obligation at that date; and (b) 10% of the fair value of any plan assets at that date. The portion of actuarial gains and losses to be recognised is the excess, determined as described above, divided by the expected remaining average working lives of the employees participating in the plan.

Taxation

UK Corporation Tax is provided on relevant investment income. There is no deferred tax in the year to 20 February 2007 (2006 – nil).

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

	2007		2006	
United Kingdom	£0.511	=	US$1	(£0.574)
Euro	€0.760	=	US$1	(€0.839)
Japan	YEN120.105	=	US$1	(YEN118.460)

(All Amounts in US Dollar thousands unless otherwise stated)

NOTES TO THE ACCOUNTS CONTINUED

2. SEGMENTAL ANALYSIS BY CLASS

The segment financial positions for the year ended 20 February 2007 are shown below:

Balance Sheet

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets		1,390	-	-	1,390
Property, plant and equipment		15,875	-	-	15,875
Financial assets					
Equity securities:					
- at fair value through income	3	199,675	-	2,998	202,673
Debt securities:					
- at fair value through income	3	280,551	32,119	2,099	314,769
Loans and receivables including insurance and reinsurance receivables		12,531	1,724	16	14,271
Derivative financial instruments		171	13	-	184
Retirement benefit asset		16,715	-	-	16,715
Reinsurance contracts	5	119,815	265	-	120,080
Cash and cash equivalents	4	82,824	2,690	15	85,529
Total assets		729,547	36,811	5,128	771,486
ACCUMULATED SURPLUS					
Income and expenditure account		(57,095)	(10,830)	4,582	(63,343)
Contingency funds	12	223,721	21,936	-	245,657
Revaluation reserve		7,927	-	-	7,927
Total accumulated surplus		174,553	11,106	4,582	190,241
LIABILITIES					
Insurance contracts	5	537,776	26,005	-	563,781
Reinsurance payables		6,996	210	88	7,294
Trade and other payables		9,553	(510)	458	9,501
Current tax liabilities		669	-	-	669
Total liabilities		554,994	25,705	546	581,245
Total accumulated surplus and liabilities		729,547	36,811	5,128	771,486

(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS CONTINUED

The segment results for the year ended 20 February 2007 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		181,582	11,349	604	193,535
Insurance premium ceded to reinsurers	6	(27,677)	(496)	(458)	(28,631)
		153,905	10,853	146	164,904
Investment income		2,225	128	-	2,353
Net fair value gains at fair value through income	7	52,179	1,020	576	53,775
Net income		208,309	12,001	722	221,032
Insurance claims and loss adjustment expenses	8	218,292	10,628	-	228,920
Insurance claims and loss adjustment expenses recovered from reinsurers	9	(48,936)	(265)	-	(49,201)
Net insurance benefits and claims		169,356	10,363	-	179,719
Expenses for the acquisition of insurance and investment contracts	10	16,011	653	6	16,670
Expenses for marketing and administration	11	8,382	2,260	167	10,809
Expenses for asset management services rendered		1,410	85	32	1,527
Expenses		195,159	13,361	205	208,725
Results of operating activities		13,150	(1,360)	517	12,307
Finance income		7,978	1,696	(43)	9,631
Surplus before tax		21,128	336	474	21,938
Tax expense		(1,244)	(25)	(13)	(1,282)
Surplus for the year		19,884	311	461	20,656

(All Amounts in US Dollar thousands unless otherwise stated)

NOTES TO THE ACCOUNTS CONTINUED

2. SEGMENTAL ANALYSIS BY CLASS CONTINUED

The segment financial positions for the year ended 20 February 2006 are shown below:

Balance Sheet

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets		1,162	-	-	1,162
Property, plant and equipment		14,053	-	-	14,053
Financial assets					
Equity securities:					
- at fair value through income	3	183,951	-	2,536	186,487
Debt securities:					
- at fair value through income	3	216,032	29,294	1,985	247,311
Loans and receivables including insurance and reinsurance receivables		11,056	2,027	16	13,099
Retirement benefit asset		9,831	-	-	9,831
Reinsurance contracts	5	77,398	-	-	77,398
Cash and cash equivalents	4	93,717	2,431	15	96,163
Total assets		607,200	33,752	4,552	645,504
ACCUMULATED SURPLUS					
Income and expenditure account		(45,361)	(7,790)	4,121	(49,030)
Contingency funds	12	192,103	18,585	-	210,688
Revaluation reserve		6,347	-	-	6,347
Total accumulated surplus		153,089	10,795	4,121	168,005
LIABILITIES					
Insurance contracts	5	428,262	22,236	-	450,498
Reinsurance payables		6,931	98	81	7,110
Cash and cash equivalents		3,310	-	-	3,310
Financial liabilities					
Borrowings		3,322	-	-	3,322
Derivative financial instruments		310	14	-	324
Trade and other payables		9,478	609	350	10,437
Retirement benefit obligations		1,842	-	-	1,842
Current tax liabilities		656	-	-	656
Total liabilities		454,111	22,957	431	477,499
Total accumulated surplus and liabilities		607,200	33,752	4,552	645,504

(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS CONTINUED

The segment results for the year ended 20 February 2006 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		166,358	10,244	515	177,117
Insurance premium ceded to reinsurers	6	(23,075)	(594)	(322)	(23,991)
		143,283	9,650	193	153,126
Investment income		1,425	49	-	1,474
Net fair value gains at fair value through income	7	28,197	1,052	233	29,482
Net income		172,905	10,751	426	184,082
Insurance claims and loss adjustment expenses	8	119,865	5,308	-	125,173
Insurance claims and loss adjustment expenses recovered from reinsurers	9	5,945	(179)	-	5,766
Net insurance benefits and claims		125,810	5,129	-	130,939
Expenses for the acquisition of insurance and investment contracts	10	14,954	547	5	15,506
Expenses for marketing and administration	11	4,587	2,579	175	7,341
Expenses for asset management services rendered		1,213	81	29	1,323
Expenses		146,564	8,336	209	155,109
Results of operating activities		26,341	2,415	217	28,973
Finance costs		(3,917)	(1,165)	25	(5,057)
Surplus before tax		22,424	1,250	242	23,916
Tax expense		(846)	6	(7)	(847)
Surplus for the year		21,578	1,256	235	23,069

(All Amounts in US Dollar thousands unless otherwise stated)

NOTES TO THE ACCOUNTS CONTINUED

3. FAIR VALUE SECURITIES

	P&I	FD&D	War Risks	Total
At 20 February 2007				
Market value				
Equity securities – at fair value through income	199,675	-	2,998	202,673
Debt securities – at fair value through income	280,551	32,119	2,099	314,769
	480,226	32,119	5,097	517,442
Cost				
Equity securities – at fair value through income	195,838	-	1,465	197,303
Debt securities – at fair value through income	281,963	32,595	1,493	316,051
	477,801	32,595	2,958	513,354
At 20 February 2006				
Market value				
Equity securities – at fair value through income	183,951	-	2,536	186,487
Debt securities – at fair value through income	216,032	29,294	1,985	247,311
	399,983	29,294	4,521	433,798
Cost				
Equity securities – at fair value through income	182,111	-	1,465	183,576
Debt securities – at fair value through income	216,996	29,417	1,493	247,906
	399,107	29,417	2,958	431,482

4. CASH AND CASH EQUIVALENTS

	P&I	FD&D	War Risks	Total
At 20 February 2007				
Cash at bank and in hand	41,505	2,690	15	44,210
Short-term bank deposits	34,699	-	-	34,699
Short-term maturity bonds	6,620	-	-	6,620
	82,824	2,690	15	85,529
At 20 February 2006				
Cash at bank and in hand	22,282	2,431	15	24,728
Short-term bank deposits	61,481	-	-	61,481
Short-term maturity bonds	9,954	-	-	9,954
	93,717	2,431	15	96,163

(All Amounts in US Dollar thousands unless otherwise stated)

5. INSURANCE CONTRACTS

Policy Year Analysis	Closed Years	Open policy years 2004	2005	2006	Handling Reserve	Total
ALL CLASSES						
At 20 February 2007						
Gross outstanding claims	153,117	92,059	99,829	198,276	20,500	563,781
Reinsurance amount	41,711	27,444	9,358	41,567	-	120,080
Net outstanding claims	111,406	64,615	90,471	156,709	20,500	443,701
At 20 February 2006						
Gross outstanding claims	194,394	118,702	120,002	-	17,400	450,498
Reinsurance amount	45,551	29,539	2,308	-	-	77,398
Net outstanding claims	148,843	89,163	117,694	-	17,400	373,100
P&I CLASS						
At 20 February 2007						
Gross outstanding claims						
Members	133,684	76,443	85,137	154,252	15,500	465,016
Pooling agreement	13,375	12,218	10,130	37,037	-	72,760
	147,059	88,661	95,267	191,289	15,500	537,776
Reinsurance amount						
Recoveries due under the pooling agreement	10,826	13,049	2,471	15,877	-	42,223
Recoveries due from reinsurers	30,885	14,395	6,622	25,690	-	77,592
	41,711	27,444	9,093	41,567	-	119,815
Net outstanding claims	105,348	61,217	86,174	149,722	15,500	417,961
At 20 February 2006						
Gross outstanding claims	186,468	114,381	115,013	-	12,400	428,262
Reinsurance amount	45,551	29,539	2,308	-	-	77,398
Net outstanding claims	140,917	84,842	112,705	-	12,400	350,864
FD&D CLASS						
At 20 February 2007						
Gross outstanding claims	6,058	3,398	4,562	6,987	5,000	26,005
Reinsurance amount						
Recoveries due from reinsurers	-	-	265	-	-	265
	-	-	265	-	-	265
Net outstanding claims	6,058	3,398	4,297	6,987	5,000	25,740
At 20 February 2006						
Gross outstanding claims	7,926	4,321	4,989	-	5,000	22,236
Reinsurance amount	-	-	-	-	-	-
Net outstanding claims	7,926	4,321	4,989	-	5,000	22,236

(All Amounts in US Dollar thousands unless otherwise stated)

NOTES TO THE ACCOUNTS CONTINUED

6. INSURANCE PREMIUM CEDED TO REINSURERS

	P&I	FD&D	War Risks	Total
Year ended 20 February 2007				
Market	9,893	496	221	10,610
International Group	17,784	-	-	17,784
War Risks Group	-	-	237	237
	27,677	496	458	28,631
Year ended 20 February 2006				
Market	9,197	594	113	9,904
International Group	13,878	-	-	13,878
War Risks Group	-	-	209	209
	23,075	594	322	23,991

7. NET FAIR VALUE GAINS AT FAIR VALUE THROUGH INCOME

	P&I	FD&D	War Risks	Total
Year ended 20 February 2007				
Debt securities				
Fixed interest	12,443	1,434	-	13,877
Net realised losses	(582)	(61)	-	(643)
Net unrealised losses	(462)	(353)	114	(701)
	11,399	1,020	114	12,533
Equities				
Dividends	924	-	-	924
Net realised gains	37,863	-	-	37,863
Net unrealised gains	1,993	-	462	2,455
	40,780	-	462	41,242
Total	52,179	1,020	576	53,775
Year ended 20 February 2006				
Debt securities				
Fixed interest	8,644	1,338	-	9,982
Net realised gains	2,029	(263)	-	1,766
Net unrealised losses	(2,868)	(23)	(87)	(2,978)
	7,805	1,052	(87)	8,770
Equities				
Dividends	1,048	-	-	1,048
Net realised gains	44,443	-	-	44,443
Net unrealised losses	(25,099)	-	320	(24,779)
	20,392	-	320	20,712
Total	28,197	1,052	233	29,482

(All Amounts in US Dollar thousands unless otherwise stated)

8. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	P&I	FD&D	War Risks	Total
Year ended 20 February 2007				
Gross claims paid				
Members' claims	85,725	4,458	-	90,183
Other P&I Clubs' pool claims	13,030	-	-	13,030
Claims handling costs	10,023	2,401	-	12,424
	108,778	6,859	-	115,637
Movement in gross outstanding claims				
Members	83,476	3,769	-	87,245
Pooling agreement	26,038	-	-	26,038
	109,514	3,769	-	113,283
Total gross claims	218,292	10,628	-	228,920
Year ended 20 February 2006				
Gross claims paid				
Members' claims	80,671	2,443	-	83,114
Other P&I Clubs' pool claims	11,491	-	-	11,491
Claims handling costs	9,697	2,654	-	12,351
	101,859	5,097	-	106,956
Movement in gross outstanding claims				
Members	15,443	211	-	15,654
Pooling agreement	2,563	-	-	2,563
	18,006	211	-	18,217
Total gross claims	119,865	5,308	-	125,173

(All Amounts in US Dollar thousands unless otherwise stated)

NOTES TO THE ACCOUNTS CONTINUED

9. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES RECOVERED FROM REINSURERS

	P&I	FD&D	War Risks	Total
Year ended 20 February 2007				
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	2,261	-	-	2,261
Claims recoverable under the pooling agreement	4,260	-	-	4,260
	6,521	-	-	6,521
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	24,007	265	-	24,272
Recoveries due under the pooling agreement	18,408	-	-	18,408
	42,415	265	-	42,680
Total	48,936	265	-	49,201
Year ended 20 February 2006				
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	4,261	179	-	4,440
Claims recoverable under the pooling agreement	1,442	-	-	1,442
	5,703	179	-	5,882
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	(20,053)	-	-	(20,053)
Recoveries due under the pooling agreement	8,405	-	-	8,405
	(11,648)	-	-	(11,648)
Total	(5,945)	179	-	(5,766)

10. EXPENSES FOR THE ACQUISITION OF INSURANCE AND INVESTMENT CONTRACTS

	P&I	FD&D	War Risks	Total
Year ended 20 February 2007				
Brokerage	10,773	653	6	11,432
Acquisition costs	5,238	-	-	5,238
	16,011	653	6	16,670
Year ended 20 February 2006				
Brokerage	9,875	547	5	10,427
Acquisition costs	5,079	-	-	5,079
	14,954	547	5	15,506

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 2007. The Ratio of 9.1% (2006 – 9.2%) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements of NEPIA and NoE(Bermuda).

(All Amounts in US Dollar thousands unless otherwise stated)

11. EXPENSES FOR MARKETING AND ADMINISTRATION

	P&I	FD&D	War Risks	Total
Year ended 20 February 2007				
Gross marketing and administration expenses	25,705	4,661	167	30,533
Acquisition costs	(5,238)	-	-	(5,238)
Loan interest transferred to finance costs	(104)	-	-	(104)
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(1,958)	-	-	(1,958)
Claims handling costs	(10,023)	(2,401)	-	(12,424)
	8,382	2,260	167	10,809
Year ended 20 February 2006				
Gross marketing and administration expenses	21,212	5,233	175	26,620
Acquisition costs	(5,079)	-	-	(5,079)
Loan interest transferred to finance costs	(161)	-	-	(161)
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(1,688)	-	-	(1,688)
Claims handling costs	(9,697)	(2,654)	-	(12,351)
	4,587	2,579	175	7,341

12. CONTINGENCY FUNDS

Protecting & Indemnity Class

	2007	2007	2006	2006
Balance at 20 February 2006		192,103		153,928
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / (losses) and income	42,335		34,317	
Surplus transferred from closed policy years	16,083		3,858	
Transfer to the 2006 policy year	(26,800)		-	
		31,618		38,175
Balance at 20 February 2007		223,721		192,103

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

Freight, Demurrage & Defence Class

	2007	2007	2006	2006
Balance at 20 February 2006		18,585		15,325
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / (losses) and income	2,358		(722)	
Surplus transferred from closed policy years	993		3,982	
		3,351		3,260
Balance at 20 February 2007		21,936		18,585

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

(All Amounts in US Dollar thousands unless otherwise stated)

NOTES TO THE ACCOUNTS CONTINUED

13. INTERNATIONAL GROUP DISCLOSURE

Disclosure for the International Group accounting requirements in respect of reinsurance premium debtors in the P&I Class is as follows:

	2007	2006
Recoveries due under the pooling agreement	186	290
Recoveries due from other reinsurers	940	2,621
	1,126	2,911

Disclosure for the International Group accounting requirements in respect of the change in provision in respect of claims paid in the P&I Class is as follows:

	2007	2006
Gross outstanding claims		
Members	83,476	15,443
Pooling agreement	26,038	2,563
	109,514	18,006
Reinsurers' share		
Recoveries due from reinsurers	(24,007)	20,053
Recoveries due under the pooling agreement	(18,409)	(8,405)
	(42,416)	11,648
Movement in net outstanding claims	67,098	29,654

(All Amounts in US Dollar thousands unless otherwise stated)

COMBINED P&I CLASS POLICY YEAR STATEMENT

	Closed Years	2004/ 2005	2005/ 2006	2006/ 2007	Claims Handling Reserve	Contingency Fund	Unrealised Gains	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		152,393	154,621	-	-	-	-	307,014
Invoiced in Current Year		(104)	1,015	169,710	-	-	-	170,621
		152,289	155,636	169,710	-	-	-	477,635
Release Premium		536	247	72	-	-	-	855
		152,825	155,883	169,782	-	-	-	478,490
Reinsurance Premiums		(32,201)	(25,286)	(30,618)	-	-	-	(88,105)
		120,624	130,597	139,164	-	-	-	390,385
Investment income, gains on sales of investments, and exchange movements		12,175	15,931	18,607	-	146,629	2,468	195,810
Transfers from closed years		-	-	26,800	-	80,157	-	106,957
		132,799	146,528	184,571	-	226,786	2,468	693,152
Members' & Pool Claims		(67,460)	(48,317)	(27,808)	-	-	-	(143,585)
Expenses & Tax		(19,279)	(21,582)	(26,401)	-	(3,065)	-	(70,327)
Surplus Available on Closed Years	105,348	-	-	-	-	-	-	105,348
Balances Available for Outstanding Claims	105,348	46,060	76,629	130,362	-	223,721	2,468	584,588
Outstanding Claims	(147,059)	(88,661)	(95,267)	(191,289)	(15,500)	-	-	(537,776)
Reinsurance Recoveries	41,711	27,444	9,093	41,566	-	-	-	119,814
	(105,348)	(61,217)	(86,174)	(149,723)	(15,500)	-	-	(417,962)
Revaluation Reserve	-	-	-	-	-	-	-	7,927
Surplus / (Deficit) at 20 February 2007	-	(15,157)	(9,545)	(19,361)	(15,500)	223,721	2,468	174,553
Surplus / (Deficit) at 20 February 2006	(1,593)	(27,235)	(5,058)	-	(12,400)	192,103	925	153,089

(All Amounts in US Dollar thousands unless otherwise stated)

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 Associations"). The Statement aggregates the policy year statements of the Associations 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 Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2007.
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. Expenses and tax charged to open policy years are as follows:

	2004/2005	2005/2006	2006/2007
General and administrative expenses	17,722	19,523	23,747
Investment expenses	1,141	1,213	1,410
Taxation	416	846	1,244
	19,279	21,582	26,401

5. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.
6. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.
7. Future investment income has not been included in the statement and claims have not been discounted.
8. 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. Pool claims were at record levels in 2006 and are currently US$131 million higher than the worst previous year after twelve months of development. Therefore, US$26.8 million was transferred from the Contingency Fund to the 2006 policy year to cover the higher than budgeted cost of our share of the International Group's pool claims.
9. The approximate yield of a 10% supplementary call on the open policy years would be:

2004/05	US$13.4 million
2005/06	US$13.6 million
2006/07	US$14.9 million

(All Amounts in US Dollar thousands unless otherwise stated)

COMBINED FD&D CLASS POLICY YEAR STATEMENT

	Closed Years	2004/ 2005	2005/ 2006	2006/ 2007	Claims Handling Reserve	Contingency Fund	Unrealised Losses	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		9,274	9,511	-	-	-	-	18,785
Invoiced in Current Year		(39)	227	10,497	-	-	-	10,685
		9,235	9,738	10,497	-	-	-	29,470
Release Premium		24	16	6	-	-	-	46
		9,259	9,754	10,503	-	-	-	29,516
Reinsurance Premiums		(621)	(787)	(702)	-	-	-	(2,110)
		8,638	8,967	9,801	-	-	-	27,406
Investment income, gains on sales of investments, and exchange movements		698	322	838	-	6,144	(476)	7,526
Transfers from closed years		-	-		-	15,792	-	15,792
		9,336	9,289	10,639	-	21,936	(476)	50,724
Claims		(2,202)	(2,394)	(558)	-	-	-	(5,154)
Expenses & Tax		(4,702)	(5,308)	(4,771)	-	-	-	(14,781)
Surplus Available on Closed Years	6,058	-	-	-	-	-	-	6,058
Balances Available for Outstanding Claims	6,058	2,432	1,587	5,310	-	21,936	(476)	36,847
Outstanding Claims	(6,058)	(3,398)	(4,562)	(6,987)	(5,000)	-	-	(26,005)
Reinsurance Recoveries	-	-	265	-	-	-	-	265
	(6,058)	(3,398)	(4,297)	(6,987)	(5,000)	-	-	(25,740)
Surplus / (Deficit) at 20 February 2007	-	(966)	(2,710)	(1,677)	(5,000)	21,936	(476)	11,107
Surplus / (Deficit) at 20 February 2006	(72)	(958)	(1,637)	-	(5,000)	18,585	(123)	10,795

(All Amounts in US Dollar thousands unless otherwise stated)

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 Associations"). The Statement aggregates the policy year statements of the Associations 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 Associations have accounted for the reinsurance transaction in their respective accounts for the period ended 20 February 2007.
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. Expenses and tax charged to open policy years are as follows:

	2004/2005	2005/2006	2006/2007
General and administrative expenses	4,609	5,233	4,661
Investment expenses	69	81	85
Taxation	24	(6)	25
	4,702	5,308	4,771

5. Estimated outstanding claims include appropriate amounts in each policy year for incurred but not reported (IBNR) claims.
6. A deficit on any open policy year will be funded by, if necessary, a transfer from the Contingency Fund or by making supplementary calls.
7. Future investment income has not been included in the statement and claims have not been discounted.
8. 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.
9. The approximate yield of a 10% supplementary call on the open policy years would be:

2004/05	US$0.6 million
2005/06	US$0.7 million
2006/07	US$0.8 million

NOTES

NOTES

North of England P&I Association Limited

Newcastle Office

The Quayside Newcastle upon Tyne NE1 3DU UK
Telephone: +44 191 2325221
Facsimile: +44 191 2610540

Hong Kong Office

Room 2503 COSCO Tower 183 Queen's Road Central Hong Kong
Telephone: +852 2544 6813
Facsimile: +852 2542 4424
E-mail: HongKongOffice@nepia.com

Greek Office

Akti Miaouli & Iassonos Street 2 GR 185 37 Piraeus Greece
Telephone: +30 210 4283038
Facsimile: +30 210 4280920
E-mail: Piraeus@nepia.com

Singapore Office

80 Anson Road 26-04 Singapore 079907
Telephone: +65 641 10160
Facsimile: +65 622 40160

Website

http://www.nepia.com

Designed and Produced by The Roundhouse Newcastle upon Tyne 0191 222 1144