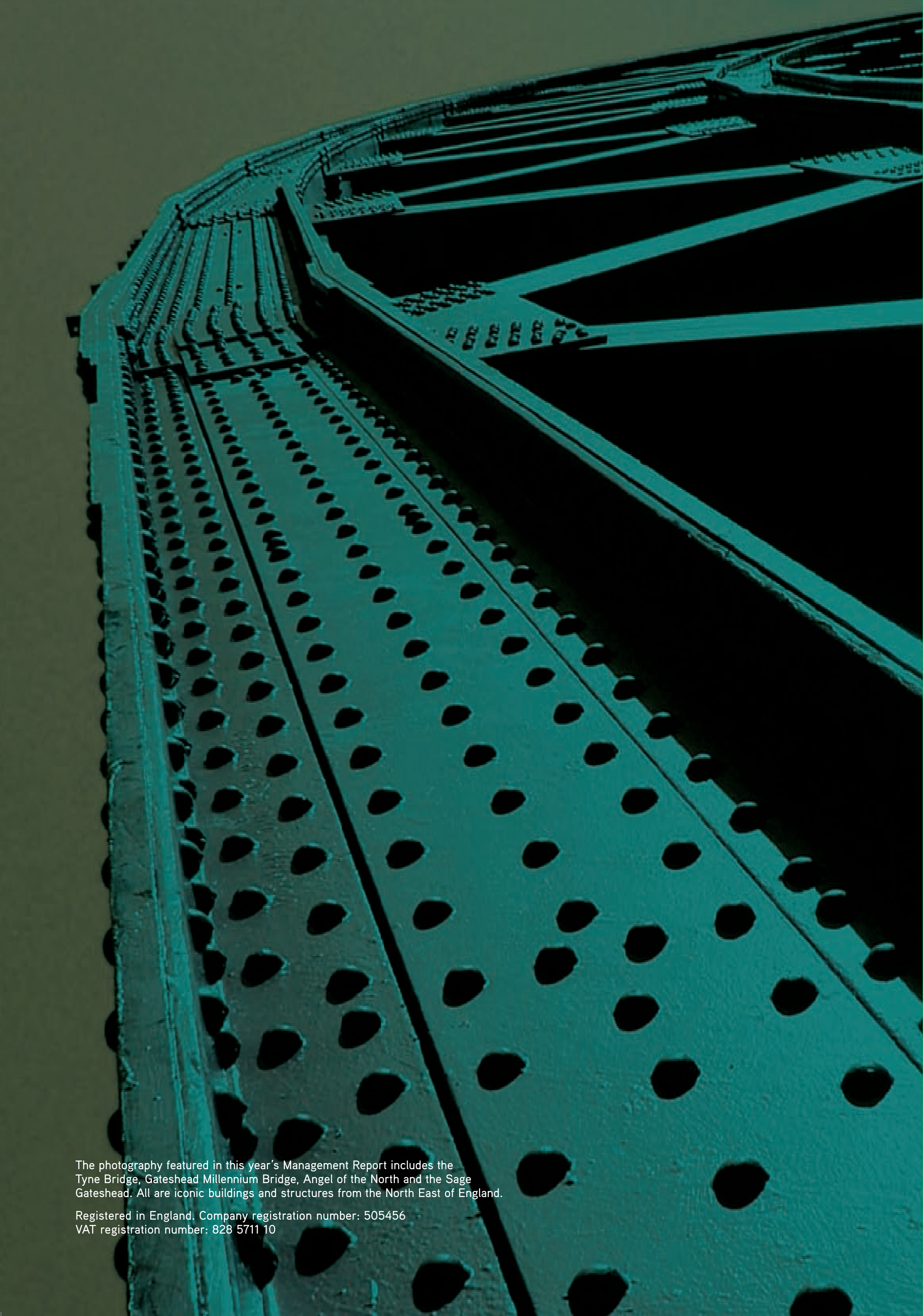
MANAGEMENT REPORT

2008

NORTH



The photography featured in this year's Management Report includes the Tyne Bridge, Gateshead Millennium Bridge, Angel of the North and the Sage Gateshead. All are iconic buildings and structures from the North East of England.

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COMPANY HIGHLIGHTS

FINANCE

- Total free reserves increased to US$220 million.
- Premium income increased to US$213 million.
- Investment return of all classes of US$38.5 million.
- Total net assets increased by US$44.8 million to US$678.8 million.

MEMBERSHIP

- Total entered tonnage increased to 90 million GT.
- Continued Membership refinement.
- Further high quality Members joined since 20 February 2007.

SERVICE

- Increased focus on Member service.
- Continued staff recruitment/development programme.
- Enhanced risk management emphasis.

P&I CLAIMS

- P&I Claims department handled 5,256 claims.
- 32 claims recorded in excess of US$1 million.
- Almost 99% of claims handled fell below US$500,000.

FD&D

- 2,143 ships entered.
- 64.6 million GT of entered tonnage.
- Increased free reserves to US$14.3 million.

FINANCIAL SUMMARY

FIVE YEAR COMBINED SUMMARY

Amount in US$ million; All classes
Income and expenditure

	2007/08	2006/07	2005/06	2004/05	2003/04
Premium	213.0	193.5	177.1	174.5	156.5
Investment income less tax	38.5	54.8	30.1	20.6	39.7
Exchange gain / (loss)	5.1	11.2	(2.0)	1.6	12.5
Reinsurance costs	(34.5)	(28.6)	(24.0)	(32.6)	(31.7)
Net claims incurred	(162.1)	(179.7)	(130.9)	(136.2)	(126.7)
Expenses	(30.2)	(29.0)	(24.3)	(19.4)	(16.4)
Increase in free reserve	**29.8**	**22.2**	**26.0**	**8.5**	**33.9**

Balance sheet

	Feb-08	Feb-07	Feb-06	Feb-05	Feb-04
Investments	570.4	517.5	433.8	355.8	282.5
Cash and cash equivalents	79.9	85.5	96.2	121.3	149.2
Other assets	50.0	48.3	38.1	25.9	33.9
	700.3	651.3	568.1	503.0	465.6
Creditors	(21.5)	(17.3)	(27.0)	(17.8)	(19.4)
Net assets	678.8	634.0	541.1	485.2	446.2
Net outstanding claims	(458.8)	(443.8)	(373.1)	(343.2)	(312.7)
Free reserves	**220.0**	**190.2**	**168.0**	**142.0**	**133.5**

CHAIRMAN'S STATEMENT

Albert Engelsman

- Quality, service, strength and expansion for North of England
- Industry's recruitment problems have their impact
- Shipping faces the challenge of 'convention creep'

North of England can look back on the last 12 months with satisfaction. 2007 was another successful year for the Club, culminating in a further increase of total entered tonnage which stood at 90 million GT after the February 2008 renewal. The confirmation of our 'A' rating by Standard & Poor's for the fourth consecutive year and another strong investment performance are also reasons for satisfaction.

Our total free reserves for all classes rose from US$190.2 million to US$220.0 million, and we continue with our low-risk investment strategy.

We have expanded our staff once again, invested in IT, opened a new office in Singapore, and moved our Greek office to larger premises.

So much for the positives. The flip side is that North of England, the International Group of P&I Clubs and the wider shipping industry continue to face some extremely tough challenges which have and may lead to increasing claims liabilities.

The number of claims in 2007 increased by 11.5% but this broadly reflected the expansion in the number of ships on risk. It is, however, the number and value of larger claims which has the most impact for P&I Clubs. In our own case the total number of claims in excess of US$1 million at the same point in the policy year rose by 7 claims in 2007 from 25 claims in 2006 to 32 claims in 2007.

Overall, the percentage number of claims by type remains remarkably consistent year on year. However, the volatility of claims is yet again demonstrated by a fall in the number of collision claims but a significant increase in the value of those same claims.

Pool claims for the 2006 policy year were estimated to be double that of the previous highest reported figure. In fact, the total value of the 37 Pool claims in the 2006 policy year is likely to be in excess of US$800 million – approximately one-third of International Group premium income. Although pool claims in 2007 are currently expected to be at a lower level than in 2006, the total cost will still be at a very high level.

Last year my predecessor as Chairman, Bill Thomson, predicted that severe corrective action would be necessary at the renewal in 2008, and warned that shipowners should be prepared for very significant increases. Unfortunately, that warning proved to be entirely correct and at the February 2008 renewal we saw a reported average general increase of 16.6% in premiums across the P&I Clubs of the International Group.

Based on our tradition of prudent financial management, North opted for a 17.5% increase. We also took the decision to split this increase into two parts: 10% recognised the increase in Members' claims, whilst 7.5% directly contributed to our evaluation of Pool claims. A major factor in our general increase was our exposure and contribution to claims falling on the other Clubs of the International Group. Clearly, if that trend continues, then it will continue to impact on premiums.

We were pleased to receive tremendous support from our Membership and in the main we were successful in securing that required increase which, in turn, has undoubtedly helped to strengthen further the Club's position.

One would hope that claims might have at least reached a plateau, and that such severe remedial action will not be necessary again. Meanwhile, we continue to focus strongly on the prevention of claims, through our market-leading loss prevention initiatives, and we have invested significantly in this area. During 2007 we founded a Loss Prevention Working Party, comprising representatives from our Membership, which will focus on directly identifying current issues of concern facing the shipping industry as well as collecting and delivering feedback to the wider Membership.

Another key area of concern is the booming newbuilding sector. Our FD&D department has seen a substantial increase in the number of enquiries and concerns over newbuilding contracts, as the increase in steel prices and the significant number of newbuilding orders placed in the past few years have a serious impact on the ability of some yards to meet their obligations.

A number of newbuilding contracts have been cancelled and in a number of instances yards have attempted to renegotiate the purchase price and/or the delivery date. The rate of newbuilding orders and deliveries continues at a frantic pace and we expect that such problems will continue and, indeed, may worsen over the next few years.

While there is a good deal of work still to be done in the industry, there are at least signs that shipowners are taking the crewing issue more seriously. The root causes of the recent high claims levels still exist and we have to question whether the reaction is fast enough. Undoubtedly, the severe claims environment has served to highlight the challenges and difficulties facing the entire industry. All shipowners are facing problems in recruiting and retaining seafarers and this situation is inextricably linked to the increase in incidents and accidents at sea.

More and more ships are leaving the world's shipyards and, despite the "credit crunch" and global economic problems, the pace of deliveries shows little sign of slowing. With very little scrapping at the other end of the spectrum, the boom brings ever more pressure on crew availability.

At the same time, there is increasing pressure on shipowners in terms of claims liabilities, regulations and conventions. This "convention creep" pushes more and more liability on to shipowners.

The general expectation amongst authorities and regulators appears to be that shipping, and its insurers, will just accept the increased liabilities; it is often unreasonably assumed that the P&I Clubs will take on board liability for areas that would almost always be excluded from cover elsewhere – nuclear and terrorism threats are two examples.

The criminalisation of seafarers, the implications of UNCITRAL and the upcoming Bunker Convention, all of these, and more, are seriously eroding shipowners' traditional limits of liability. The Bunker Convention is due to enter into force in November and shipowners are justifiably annoyed at the emergence of yet another Convention that does not retain many of their traditional rights.

That shipowners have so far accepted this barrage of legislation is testimony to their resilience. We have accepted this latest burden but legislators should not expect us to continue accepting such erosions of our position.

It is time for the shipowners to work more closely together to improve the image of our industry and stand up for what we believe in.

One of a series of broad strategic objectives recently adopted at North is to encourage and assist our shipowner Directors and Members in promoting and enhancing the image and profile of the shipping community. As a mutual organisation working closely with our membership we are ready and prepared to become the voice of our shipowners.

Far too often shipping gets a bad press in situations where other industries – possibly better organised in terms of lobbying and self-promotion – would fare much better.

Shipping is a very safe industry, without which the global economy would come to a juddering halt, yet its importance is simply not recognised. I believe that the problems we face in terms of the erosion of our defences and the increasing areas of liability are largely because there is no real understanding amongst society of just how critical shipping is to all of our lives.

Until we communicate effectively all of the things we do, how can we expect politicians to react more favourably? Shipping has many diverse groups speaking out, but not with one voice, and much of what is said is not sufficiently coordinated. The industry must learn to communicate with its customers and the public better and earlier. If what seem like rogue decisions to the industry appear as justice to the society from which they came, then the industry is clearly failing in this regard.

The past year has seen two such decisions. It is extremely disappointing to note that the legal challenge by the Intertanko led coalition in the European Court of Justice to the EU Directive on ship source pollution failed in June 2008. This challenge to the legality of certain provisions of the directive was financially supported by North. The Club's board believe that it is important that the shipping industry should be regulated on a global basis, through the International Maritime Organisation (IMO), with regulations that ensure the fair treatment of seafarers worldwide.

We believe the effect of this directive may undermine this and will have serious repercussions for our seafarers and thus possibly the safe operation of ships.

The second example was the decision of the French court in the *Erika* case concerning the penal responsibility of certain employees of Rina and Total, which appears to have adopted novel reasoning to apply provisions of French domestic law to subject matter more properly dealt with under Marpol.

Our industry must recognise that for as long as its poor image remains, such decisions will remain the norm, adding to the increasing cost of claims and the poor image already being experienced by the industry.

The International Group of P&I Clubs could do more in this area in terms of discussing issues, claims, seafarer shortages, etc., and in promoting the shipping industry.

Shipping is going through boom times. If the shipowner Members of the International Group Clubs contributed just a few cents per GT per annum, we could surely raise millions of dollars towards the cost of lobbying and promoting the industry.

None of our problems are going to change without a massive investment into the industry to encourage better recruitment and improve retention of our people. A radical rethink is needed on life at sea: How are we to recruit bright young people into an industry so hostile that one mistake can get them thrown into jail? How can we alter careers and life at sea to take into account family life and the need for regular communication? How can we sell a career that once offered the benefits of "seeing the world" but now has seafarers unable to leave their ships during their brief, busy stay in port? We have to find a way to make the shipping industry much more attractive to young people – a poor public perception of the industry does nothing to help.

The board continues to work closely with the Managers to set and evaluate our medium and long-term objectives. In the past year we have revisited our key priorities and, as a result, put in place a revised and refreshed set of broader strategic objectives – which our management team and staff are pursuing with their usual enthusiasm and professionalism.

CHAIRMAN'S STATEMENT

continued

Key strategic aims include increasing our entered owned tonnage, expanding our product range, maintaining our financial strength and stability and providing enhanced service. We believe we continue to make progress in all these areas.

Clearly, service is a major focus and a key differentiating factor, and the recent growth in our Membership would suggest that we are getting this right. Existing Members have confidence in the service we provide and the board remains totally committed to providing the necessary resources to ensure we continue to provide the high service levels to which our Members have become accustomed.

While the industry struggles to secure enough competent and experienced people, we have a large bank of expertise at the Club on which our Members can draw. In our experience shipowners are leaning more heavily on their P&I Clubs for support.

As a Club, we have always been available to provide our shipowner Members with advice, information and training when asked and we are now increasingly asked to comment on operational issues. We constantly emphasise that we are not just dealing with claims but offer wider advice, which is especially valued in the legislative environment within which we now work. North of England has not been static over the years – we have always adapted and developed to be responsive to our Members' needs.

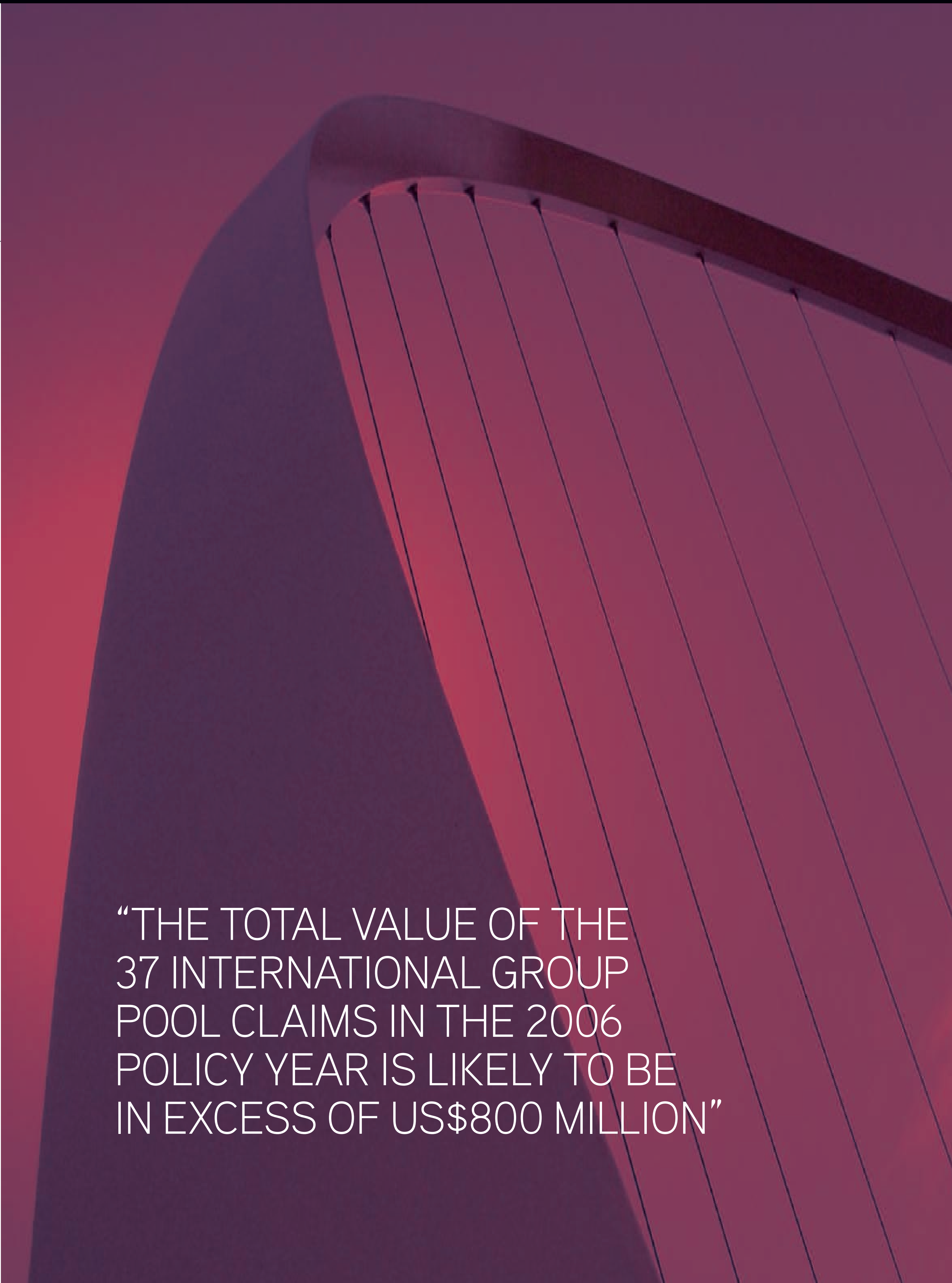
We have long said that renewal is a 12-month process. Through the 2007 policy year, existing Members added 12 million GT and they added a further 1.6 million GT at renewal. New Members brought a further 6.4 million GT to the Club at renewal to boost our entered tonnage further. We would like to thank our existing Members for their continued support. We are also delighted to have welcomed a number of new Members during the year and at the 2008 renewal.

Reinsurance continues to be of fundamental importance to the Club, both in relation to retained claims and for maintaining stability and reducing volatility in the area of high-level claims. We would like to thank Swiss Re and our other main reinsurers for their continued support. The principal reinsurance from which all P&I Clubs benefit is the International Group Pool. We recognise that Hydra has been through some challenging times but, as a board, we remain committed to the concept of increasing mutuality within the Group.

As this is the first Management Report since I took over as Chairman, I would like to take this opportunity to thank my predecessor, Bill Thomson, for all his hard work during three years of continued growth for North. I am honoured to have become Chairman of this Club and look forward to the many challenges ahead with relish. I would also like to congratulate Pratap Shirke on his appointment as Vice Chairman, and I look forward to working closely with him.

North has come a long way, and it is crucial that we remember that none of its achievements could have been made without our people. I would like to thank Rodney Eccleston, his fellow Managers and all of our loyal, dedicated and motivated staff for their hard work.

Albert Engelsman, Chairman
July 2008



"THE TOTAL VALUE OF THE 37 INTERNATIONAL GROUP POOL CLAIMS IN THE 2006 POLICY YEAR IS LIKELY TO BE IN EXCESS OF US$800 MILLION"

MANAGING DIRECTOR'S STATEMENT

Rodney Eccleston

- Maintaining our financial and service strength
- Increasing owned tonnage
- Expanding our product range
- We are an extension of our members' offices

A clear focus on people, quality, strength and service has underpinned all that North of England has worked for and achieved in recent years. We have risen to become acknowledged as one of the world's top P&I Clubs; we have expanded to 90 million GT of total entered tonnage as at the February 2008 renewal; and we have seen our 'A' financial strength rating confirmed by Standard and Poor's for the fourth consecutive year.

As one commentator put it recently, North has achieved all of this by "sticking to its knitting" – remaining committed to the basics of quality and service excellence.

But all visions deserve to be regularly revisited and refreshed, and last year we took time to re-examine the way forward, presenting a detailed strategy paper to our board of Directors as the starting point for a discussion on our broader strategic objectives.

Out of this, three principal strategic aims were identified:

- To maintain our financial and service strength, increase resources – particularly our people – and maintain our 'A' rating.
- To increase owned tonnage in the club in the medium term to 10% of the world's owned fleet and in the longer term to a minimum 12.5% – at present we are at 9%.
- To expand our product range, responding to the marine insurance needs of our growing and diverse Membership.

As Managing Director, I am charged with implementing those strategies in line with the Board's decisions. What do we need to do? The focus will be on protecting and building on the strong foundations we already have in place, while diversifying and expanding to meet new and emerging challenges.

INCREASING TONNAGE

With the world fleet continuing to grow at unprecedented levels, North might logically expect growth in entered tonnage to continue, however, we will not take new or existing Members for granted.

First and foremost, we will look after what we already have. We will continue to work hard to improve and further enhance the service we provide to our existing Members. The importance of our service reputation cannot be overstated, because service really matters to our Members. Our very best "promotional tool" and the key differentiator between ourselves and other P&I providers is the service we offer on a daily basis.

We will continue to diversify, especially in geographical terms. The recent renewal saw significant tonnage growth once again in China, Germany, Greece and South Korea, and our first significant development in South America.

During the past year we have established a new Singapore representative office (April 2007) and moved our expanding Greek office to new, larger premises in Piraeus (February 2008).

We are expecting further tonnage growth during the year from existing Members but we will continue to be selective in the new Members that we choose. Quality will always come first.

We see further growth as essential for a number of reasons. First, we need to be in a position to withstand any changes in the industry; we want to be of a size where we are able to remain independent: secondly, a bigger unit will minimise potential volatility: thirdly, a larger, more successful unit is more attractive to people from a career and recruitment perspective.

EXPANDING THE PRODUCT RANGE

We have a growing and diverse Membership with increasingly diverse marine and marine-related interests, and we must adapt accordingly.

We have made some changes already – for example, revising our reinsurance structure for charterers and non-poolable risks, allowing us to offer a greater range of products. We can add different types of cover and can offer a more flexible package within our new programme.

Our range of products continues to evolve and we are cognisant of the requirement to meet the needs of our Members in response to their own changing profiles as well as developments in the marine, logistics and energy markets.

We continue to review all areas of our business with a view to enhanced efficiency and added-value products and we always strive to enhance the services we offer to our Members.

MAINTAINING OUR STRENGTH

People: It may be one of today's clichés, but it is true to say that our people are our greatest resource and asset. We have extremely motivated and talented, high-quality people in our offices. We want to retain them and we need to attract others of a similar high calibre.

People, recruitment and training remain key priorities at North, as it is our people who differentiate us from our competitors.

Finances: We will maintain our financial strength by adhering to our long-held and well-publicised, five key financial principles:

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

Service: This has been fundamental to our success and continued growth over the years and we see service as the key component going forward. We are working hard to ensure this continues.

We have invested further in IT in the past year and will continue to do so. As part of this, we have introduced digital dictation systems and we are about to install voice recognition technology. However, our major investment has been in our new electronic document management system, introduced to allow us to store centrally all documents produced and received across the organisation.

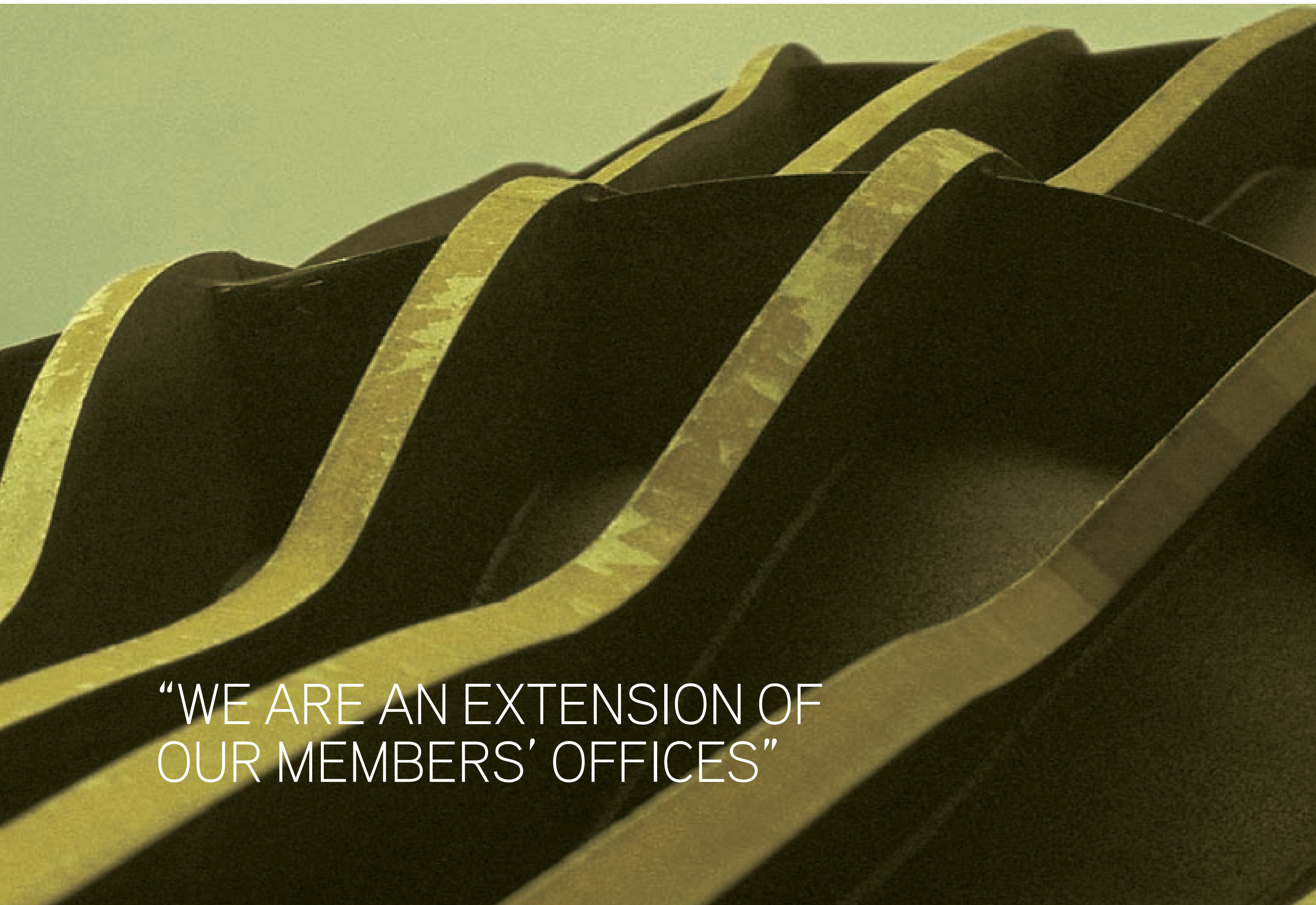
Expansion, of course, brings its own challenges – particularly those of a growing and changing Membership. We firmly believe we are well equipped to deal with these challenges.

We expect to see more consolidation within the shipping industry in the future and we are undoubtedly ideally positioned to assist the resulting new, larger groups. This in itself will bring changes and challenges in service delivery. It is essential that the service and personal relationships on which we pride ourselves continue to develop in the same way.

North of England's approach may not always grab the headlines but we believe that our success has been built on the fact that we never lose sight of the basics.

I would like to thank the Board for their continued support and commitment in allowing us to push forward with our renewed vision. The Directors are happy to resource ahead – thus we have been given the best possible start as we actively seek to implement our revised strategy.

I would also like to echo the Chairman's comments and thank the management team at North for their continued enthusiasm and support.



FINANCES

- Club's financial position strengthened further
- Free reserves increased to record US$220 million
- Net assets increased by US$44.8 million to US$678.8 million for all classes
- 'A' rating confirmed by Standard & Poor's for a fourth consecutive year

North of England's financial position strengthened further during the year to 20 February 2008, with total free reserves for all classes rising from US$190.2 million to US$220.0 million.

P&I Class free reserves increased from US$174.6 million to US$201.0 million, while FD&D and War Class reserves totalled US$14.3 million and US$4.7 million respectively.

Net assets increased by US$44.8 million to US$678.8 million for all classes. P&I Class net assets were US$632.5 million, an increase of US$40.0 million over the previous year.

Standard & Poor's reaffirmed our 'A' rating in January 2008 for the fourth consecutive year – an important achievement which provides Members with additional independent verification of our financial strength.

While the significant underwriting losses arising during the 2007 financial year were more than offset by the returns from the Club's investment portfolio, we nevertheless remain committed to achieving technical underwriting balance and continue to apply our five key financial principles:

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

North's financial performance for the year reflected the continuation of the key factors behind our 2007 result which include high level Member and Pool claims, and a strong but weakening investment performance.

The underlying underwriting performance was in line with expectation. Following the unexpectedly difficult claims year of 2006, the 2007 policy year produced gross Members' claims which were 11% higher in value at the same 12-month development point than for the previous year. This was in line with the volume growth of the business and claims levels continued to be within expected ranges post year-end.

The balance sheet benefits from the effectiveness of the underlying Swiss Re stop loss reinsurance policy, which matches the Club's conservative reserving policy with significant levels of reinsurance recoveries. As the policy years develop, the claims levels and related reinsurance recoveries are expected to recede.

Claims declared to the International Group pooling arrangement were at record levels in 2006/07, with the final figure expected to exceed US$800 million, far in excess of initial expectations. Our forecast for 2007 and beyond was adjusted accordingly and the 2007 level reflects what we believe to be a new plateau. The ultimate cost to North of our exposure to the International Group Pool has been capped by the purchase of excess of loss reinsurance for the 2007/08 and 2008/09 policy years.

The prevailing underwriting conditions produced an improved combined ratio of 108.0%, compared with 127.9% in the 2006 financial year.

Our return on investments for the P&I Class for the 2007 financial year was 7.10%, against a benchmark composite index of 6.56%.

Active asset allocation management was the key to the year's investment result, with two significant asset allocation moves during the year. Following an encouraging start to the year, nervousness over the sustainability of the extended equity "bull run" led us to make a cut in our equity exposure in the combined portfolios from 38% to 30% in June, before the start of the global "credit crunch".

In November, further concern over the short-term outlook for equities and an attempt to lock in the then cumulative performance for the financial year prompted selling of equity positions down to 18%. We are now at our lowest level of equities investment for some years, with the balance of our investments in high-quality liquid funds.

A positive return of 8.9% in the increasingly dominant bonds and cash sector provided the backbone to the financial year's investment return. Strong outperformance of the negative market by equity managers for the year resulted in a small loss on the equity funds of less than 2.0%. Investment income and gains for the year totalled US$43.6 million, compared to US$65.8 million in the 2006 financial year.

Our reference in last year's report to the International Monetary Fund warning of "unlikely constellations of risk" proved to be more than justified as events in the global financial markets unfolded during the second half of 2007 and in early 2008. The economy is far more volatile than it has been for more than a generation.

Front-end US Treasury yields entered a period of steep decline as the Federal Reserve continued to lower interest rates amid weakening economic growth and further tightening of credit conditions in the second half of 2007.

The Federal Reserve lowered the Funds rate by 275 basis points during the period, resulting in a further steepening of the yield curve. Yield spreads on corporate debt, residential and commercial-backed mortgages, and asset-backed securities widened during the period, reflecting deteriorating credit fundamentals and declining liquidity in the banking sector.

Despite growing signs of economic weakness and the ongoing dislocation in credit markets, headline inflation pressures increased due to strong foreign demand and the rapid easing of US monetary policy. The US dollar declined against most major currencies during the period – this was most evident against commodity-based currencies, as energy, metal and agricultural prices surged sharply higher.

Our investment committee, made up of shipowner Members, has been meeting more regularly in order to closely monitor the situation. As trustees of our Members' money, we will remain cautious.

The heightened claims activity through the 2006 and 2007 policy years has demonstrated the volatility in underwriting results that can occur in the P&I sector. North's commitment to achieving technical underwriting balance has been brought back on course in the past financial year following the significant market volatility in 2006/07, and we remain dedicated to the consistent application of our five key financial principles.

We are committed to the continued enhancement of the Club's financial strength. Our assiduous emphasis on producing a break-even technical result was evident at the 2008/09 renewal, when our rating process focused specifically on inherent claims inflation and the financial risk from the Club's participation in the International Group Pool. Our overall general increase at renewal 2008 of 17.5% was split into two parts – 10% recognised the increase in Members' claims and 7.5% was in respect of Pool claims. This move was made to ensure clarity and transparency, and we will review conditions again ahead of next year's renewal.

In our report last year, we expressed our view that the investment markets appeared to be at a turning point, and our asset allocation strategy through 2007 responded accordingly. At the time of writing, the market talk is of a resilient real economy in the robust Asian and European regions and of their economies decoupling from the US and continuing to develop, insulated from the US's recessionary concerns. However, we are concerned that the linkages between the financial and real sectors, and between developed and emerging markets, are much more complex than ever before and the derivative products that create these links offer little in the way of transparency.

Our primary investment objective is capital preservation and we proceed on this basis with caution.

ERM & SOLVENCY

North of England has a robust approach to enterprise risk management. The embedded approach to enterprise risk management links directly to the solvency measure as required by our regulator, the UK Financial Services Authority (FSA).

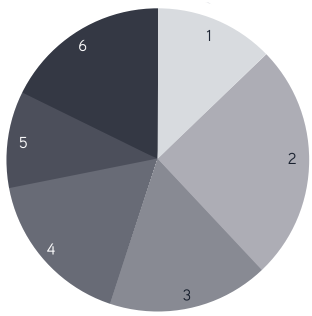
We are in the midst of the development of the new European regulatory framework for insurers, known as Solvency II. The calculation of the capital required to be held by insurers under Solvency II will rely on certain critical factors, including the risk assessment process and the plan for risk mitigation. Capital advantage can be gained by the implementation and operation of effective risk management systems that can reduce the level of capital required to meet regulatory solvency measures.

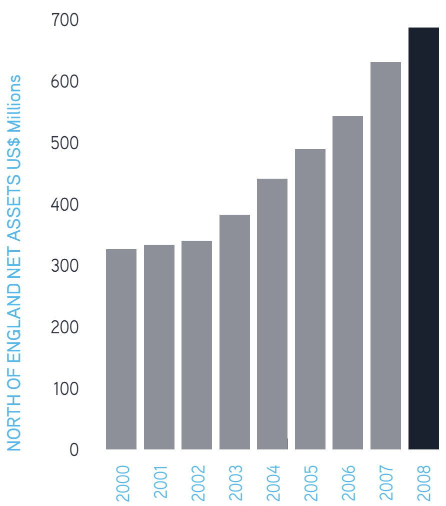
The Club will endeavour to operate with as low a regulatory capital requirement level as possible and ensure that existing free reserves provide more than sufficient cover for the required regulatory capital.

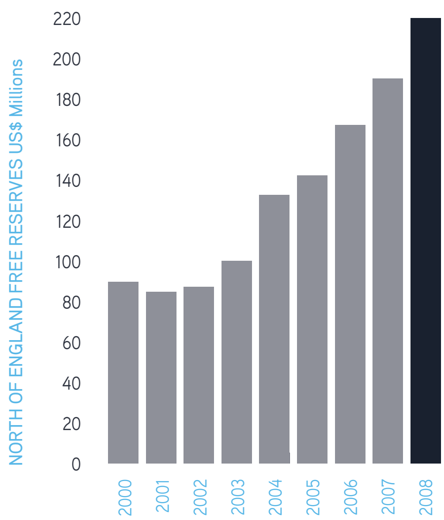
Although we are well into the development of the Solvency II regulatory regime, there remains a significant amount of development still to be completed, with implementation not scheduled until 2012.

P&I CLASS INVESTMENT PORTFOLIO

1	Cash	13%
2	Up to 2 years	24%
3	2 to 5 years	18%
4	5 to 10 years	17%
5	Over 10 years	11%
6	Equities	17%



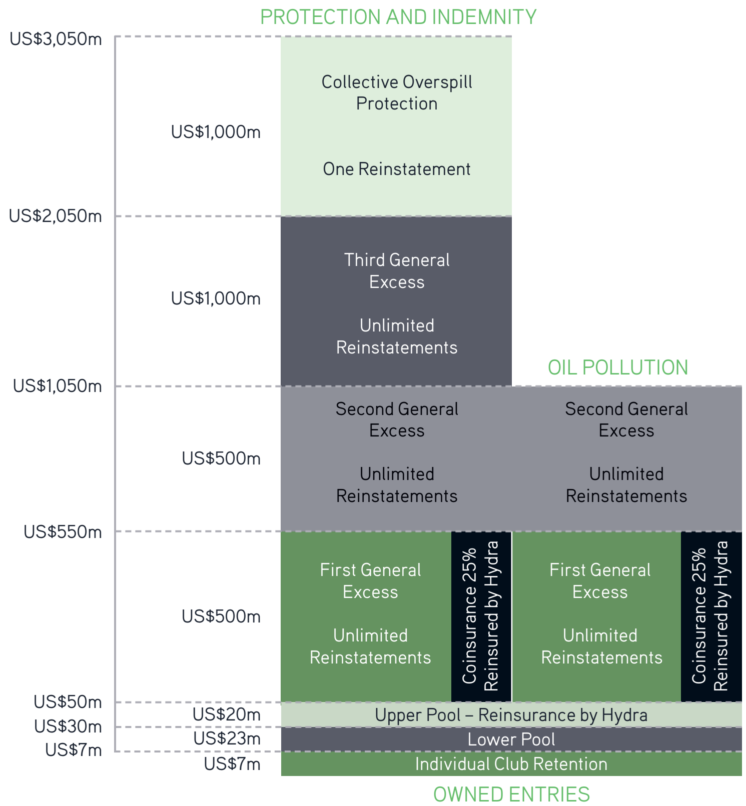




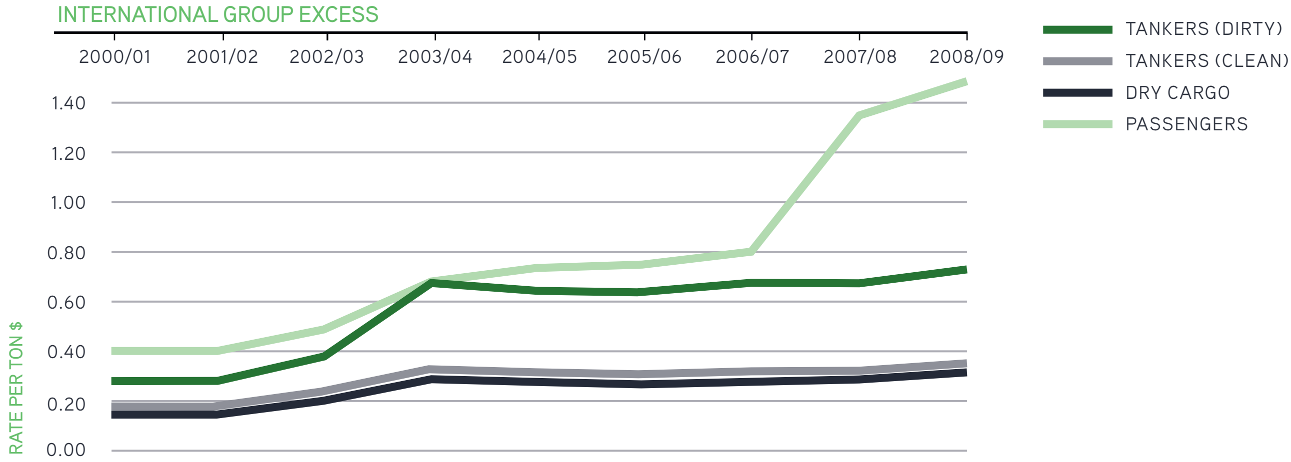
REINSURANCE

North's reinsurance strategy has remained largely unchanged during the year, the focus being to absorb more risk and reduce dependence on commercial reinsurance. However, we recognise the importance of continuing to have in place an efficient reinsurance programme that reduces extreme volatility while also recognising the Club's cautious financial approach and the long-term nature of P&I liabilities.

The 12 months to the 20 February 2008 renewal were a busy period as far as the Club's global reinsurance programmes were concerned.



INTERNATIONAL GROUP REINSURANCE STRUCTURE



POOLING AGREEMENT

2007 policy year was another very tough year for Pool claims. At 20 February 2008 some 20 claims with a total value of US$205.3 million had been reported for the layer of claims between US$7 million and US$30 million. Historical modelling would suggest that ultimately this figure could deteriorate to as much as US$318 million. North of England had 1 claim into the Pool during the year, with an estimated total cost to the Pool of US$2.7 million. Against this, our contribution to other Clubs' Pool claims is estimated to be approximately US$22.2 million, based on the number and value of claims reported at 20 February 2008. During 2007, North purchased Excess Loss Pool protection designed to cap the Club's contribution to Pool claims, and similar protection has also been purchased for the 2008 policy year.

We firmly believe that the collective reinsurance arrangements of the International Group are an integral part of the efficient operation of the Group and the pooling of claims is also an essential component of this. It is important, however, that the pooling mechanism is responsive to changes in terms of recent record exposure of individual members of the Pool.

There was a welcome break from the debate surrounding the increase in the Pool retention last year, although it is probable this will be on the agenda again for the forthcoming year. Our view remains that whilst supporting inflation-indexed increases in the retention level, we do not support the philosophical view that higher retentions increase underwriting discipline; the totally random historical incidence of Pool claims render this argument untenable.

HYDRA

The International Group's reinsurance arrangement with Hydra via segregated accounts for each Club's liability has attracted some interest during the past year. Hydra reinsures the upper Pool, i.e. US$20 million excess of US$30 million and, separately, the Group's 25% coinsurance of the first layer of the General Excess Loss Contract of US$500 million, excess of US$50 million per claim. In turn, Hydra protects its exposure to the coinsurance element via an excess of loss contract which provides cover in excess of US$200 million in the aggregate.

The extraordinary increase in the number of claims in both 2006 and 2007 has had a severe impact on Hydra, particularly in the upper Pool layer between US$30 million and US$50 million. As a result, Hydra has again revised its reserving policy and funding requirements. This led to an increase in the capital requirements, which translated into an increase in overall International Group reinsurance costs, which was passed on to Members at this year's renewal by way of an increase in International Group reinsurance rates.

It is important to remember that it is not the creation of Hydra which has led to the disappointing figures but rather the escalation in claims liabilities and particularly those claims between US$30 million and US$50 million. Not withstanding this, Hydra still continues to serve its original purpose of insulating the International Group from the volatility of the commercial reinsurance market.

INTERNATIONAL GROUP EXCESS OF LOSS CONTRACT

Following the significant restructuring of the International Group's General Excess of Loss Reinsurance Contract in 2007, there were very few changes to the contract this year. The reinsurance programme continues to operate with three layers – two layers of US$500 million and one of US$1 billion. In addition, the International Group has again purchased a collective overspill protection layer of US$1 billion. The increase in International Group reinsurance rates this year of approximately 10% largely due to the additional funding requirements of the Group's captive, Hydra.

The International Group Reinsurance Contract continues to be the largest marine reinsurance contract in the world and, together with the protection afforded by Hydra, the Group maximises reinsurance capacity for its combined membership, representing over 90% of the world's tonnage. This is of major importance and benefit for all members of the International Group of P&I Clubs.

NORTH'S OWN REINSURANCE

The continuing growth and development of North of England leads to a more developed and stable risk profile and this has allowed the Club to increasingly absorb more retained risk within our own retention reinsurance programme. Together with our long-term reinsurance partners Swiss Re, we have again re-engineered our Stop Loss Protection Policy; this has been renewed with Swiss Re for a further period of two years from 20 February 2008. The long-term relationship with Swiss Re and the trust and understanding that has developed through the relationship has allowed us to develop a product which provides for increased risk retention by the Club, and also recognises the inherently conservative financial nature of North, and allows us to reduce excessive volatility for our Members.

CHARTERERS' NON POOLABLE REINSURANCES

As highlighted in last year's Management Report, we have undertaken a strategic review of the Club's charterers' and non poolable reinsurances. This led to the decision to formally develop a charterers' facility outside of the International Group reinsurance programme. We now place all of our charterers' P&I reinsurance into this facility and we have also combined our extensive non poolable and additional covers into this facility – which can respond to the needs of our developing Membership, enhancing the range of additional covers we can provide as well as providing more flexibility in respect of limits and pricing. The development of this facility is part of one of the Club's key strategic objectives of increasing the marine insurance product range for our Membership.

INDUSTRY ISSUES

- A year of continued growth in world tonnage
- Impact of UNCITRAL Treaty and HNS Convention
- Time for shipping to promote itself effectively

2007 was a year of continued growth for the shipowning industry in terms of tonnage coupled with high freight rates, particularly in the dry bulk sector, set against the background of a decade's achievements in productivity and safety.

Put simply, shipping offers a safe, cost-effective, professional and efficient means of transporting goods, but despite all of these positives, the wider shipping industry is still not getting its message across and its role is still not recognised by politicians or the general public.

Although few industries can boast such a record of sustained, consistent and responsible improvement, shipping's failure to promote itself effectively has made it an easy target for lawmakers and politicians.

The International Group has a role to play in lobbying on behalf of the industry and is increasingly effective at making its case. In order to mount a real defence of the shipping industry's interests, all stakeholders must find ways of communicating its positive role in facilitating the trade from which nations derive their wealth and populations gain the necessities and luxuries of life.

Last year we highlighted the enormous growth in the world fleet over the previous ten years. This growth has continued; January 2008 saw the total world order book rise to record and unprecedented levels. The expansion is across all sectors of the shipping industry, with 30% of the order book being for bulkers, 26% for tankers and 21% for containers.

We believe that it is time to highlight some equally impressive, but less well publicised, achievements of the shipping industry. Over the past ten years, the industry has delivered enormous improvements in terms of traded volumes, safety and reduced damage to the environment. These achievements may grab fewer headlines but they deserve equal, if not greater, prominence to the dramatic increases in dry bulk freight rates of recent years.

More than 90% of world trade is carried by the international shipping industry. There are some 50,000 merchant ships trading international and transporting cargo of every kind. The world fleet is registered in over 150 nations and manned by more than one million seafarers.

The volume of trade is often calculated in tonne-miles – the measurement of tonnes carried multiplied by the distance travelled. Just over 23,000 billion tonne-miles of cargo was carried in 2000. By 2005 this had risen to almost 29,000 billion tonne-miles and there is every expectation that this growth will continue for the foreseeable future. The volume of goods transported by sea has demonstrated consistent growth since the 1970s, with the exception of a small dip between 1980 and 1985.

While rising to the challenge of this growth in demand, the shipping industry has, in parallel, delivered major safety improvements and significantly reduced its impact on the marine environment. Between 1995 and 2005, the number of lives lost at sea fell from just over 400 to fewer than 200 per year. Ship losses decreased by a similar proportion and oil spills were down from 130,000 tonnes of oil spilled in 1994 to around 13,000 tonnes in 2006.

Shipping accounts for a very small proportion of total marine pollution, with land-based discharges coupled with atmospheric inputs from land-based industry accounting for some 77% of marine pollution generated by human activity. The most recent United Nations figures (1990) show that marine pollution contributed only 12% of the total. Today that figure is probably significantly below 10%.

Such achievements deserve recognition. Yet despite these astonishing statistics, shipping's public image remains poor. Few consumers recognise the role played by shipping in their everyday lives. Few appreciate the supply chain involved in moving a television from the Far East to a European home at a cost of just US$10 per television. Nor do most people have any idea of the complexities involved in shipping bananas from South America to a local branch of Sainsbury's, Wal-Mart or Carrefour.

The shipping industry's inability to communicate effectively the role it plays in everyday life is at the root of many of the problems it currently faces. Shipping is an easy target for governments and legislators looking for ways to divert attention from their own failings.

Today, the industry faces an unprecedented raft of legislation attacking many of the basic principles which have underpinned world trade since the mid 19th century. There seems to be a sense of fatalism within the shipping industry that must be challenged if we are to preserve the liability balance between merchants and shipowners.

There have been a number of significant legislative and legal developments in the course of the year, foremost of which is the new UNCITRAL Carriage of Goods by Sea Treaty, the text of which has now been finalised for likely adoption by the UN in November this year. The expectation is that the treaty will be ratified by a large number of nations.

In some ways, this Treaty represents something of a victory for the shipping industry. Merchants and shipowners want certainty in the apportionment and levels of liability and there is no better way to achieve that than through a universal liability regime adopted by the world's major trading nations.

The Treaties represent a real advance on the present cargo liability regimes which have their foundations in the 1920s. For example, there is provision for the electronic transfer of title and multimodal transport systems have been kept fully in mind when developing the new liability regime.

The reality is that the Treaty will lead to an increase in the cost of claims. It is disappointing that the package limitation figures have been increased significantly beyond the previously high limits of the Hamburg Rules. Further, traditional defences reserved to the shipowner, such as error of navigation, have been lost.

The International Group has in recent years proactively worked to engage with legislators. An example of the way in which such dialogue can produce a better understanding and positive results can be seen in the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea (HNS) 1996.

The Convention provides for a liability and compensation framework in respect of losses caused by hazardous and noxious substances carried on board ships. The low number of states ratifying the treaty has caused IOPC Funds to establish an HNS focus group tasked with addressing states' concerns in relation to the Convention.

The International Group has been able to provide this focus group with data showing that the proportion of claims which in the past have exceeded the proposed level of the shipowner's liability has been very small. This information has been well received by the focus group; it is to be hoped that it will prove influential in resolving some of the issues preventing wider ratification of the Convention and, in so doing, avoiding a proliferation of locally adopted solutions to the problems that the Convention was formulated to deal with.

The International Group, in conjunction with the International Chamber of Shipping, is adopting a similar policy of engagement in the context of the Maritime Labour Convention (MLC). This Convention addresses the issues of abandonment and of compensation for death or injury of seafarers, with a view to ensuring that compensation is available in the case of injury, illness and death, and that maintenance and repatriation costs are met in the case of abandonment. To this end, it obliges states to require shipowners to have in place financial security to meet the costs of repatriation, including in cases of insolvency, and compensation for death, illness and injury. It seems likely that the MLC will come into force in 2010-11.

For P&I Clubs, the essential question will be whether to extend cover to pay for crew liabilities under the crew contracts of defunct owners. Owners may not like the idea of the new liabilities, but it must be better for Members that the Club extends cover to include this liability rather than witness fragmentation of cover, with shipowners being forced to seek such cover, with added costs, elsewhere.

The pragmatic approach of engagement adopted by the International Group towards the development of the HNS and Maritime Labour conventions contrasts with earlier decisions either to refuse cover or to limit cover in respect of new treaty liabilities, in the hope that legislators would be persuaded to adopt a different solution.

While a refusal to mutualise a particular set of risks remains very much the prerogative of the Members of the mutual underwriter, this strategy is perhaps only effective when there is a determination to see it through and accept the consequences of being unable to trade to a particular jurisdiction. Often by the time a particular piece of legislation has been drafted it will be too late to persuade those sponsoring the text to adopt a different more "shipowner-friendly" approach. Any real influence on the minds of legislators can only be exerted at the very start of the process, when the outline of the new legislation is being formulated and the commercial balance of the treaty has not yet been struck.

The direction of new legislation will be influenced by a great number of factors. Often, as in the case of the Erika, these include recent casualties and real or perceived shortfalls in the legal regime at the time of the incident. If shipowners are to have any chance of influencing the direction of legislation in such circumstances, the industry must speak from a position of influence, in which its recent achievements in reducing pollution and improving safety are recognised and its pivotal role in facilitating trade is acknowledged.

MEMBERSHIP

- Membership growth with enhanced quality
- Underwriters remain selective
- Significant growth in China, Germany, Greece and South Korea

The February 2008 renewal saw the culmination of another successful year for North of England, with total entered tonnage reaching a record 90 million GT.

That success has been achieved in line with the Board's strategy for growth alongside Membership refinement; despite our significant expansion year-on-year, our underwriters remain selective and continue to turn down numerous enquiries, for sound underwriting reasons.

Naturally, the market expects, correctly, that North will decline elderly, poorly maintained tonnage or, indeed, tonnage from owners with whom we are unfamiliar. However, recent decisions to decline newbuildings might be seen as more surprising. Nevertheless, our underwriters will only write business which they believe is a comfortable fit with the Club and which further enhances the existing Membership, rather than unnecessarily exposing the Membership to increased risks.

A large part of the new business coming to North is through the marine broking community and the Club continues to enjoy strong support from this important sector of the marine insurance industry.

We have consistently emphasised that the Club is comfortable underwriting small to medium-size owners but in recent years a significant proportion of new business has come from major shipowners and corporate entities. The Club is happy to accept entries from both of these sectors of the industry, provided that the quality of ownership, operation and tonnage meets our exacting underwriting criteria.

At the 2007 renewal, we were delighted to report that North's total entered tonnage had reached 70 million GT, a 15% increase on 2006 and clear evidence of considerable Member support and our ability to attract high-quality new Members.

A year down the line, North has continued to attract further high-quality shipowners with an annual tonnage growth which saw the Club reach 90 Million GT. 18 shipowner Members entered ships for the first time during the 2007 policy year and 17 new Members began an entry at the 20 February 2008 renewal.

New Members have come from geographically diverse regions, reflecting our global presence, including Australia, Chile, China, Denmark, Germany, Greece, Indonesia, India, Italy, Japan, Netherlands, Russia, Saudi Arabia, Singapore, South Korea, Taiwan, Turkey and the UK.

Some 12 million GT was added to the Club's entered tonnage during the 2007 policy year and a further 8 million GT was added at renewal – 1.6 million GT from existing Members and 6.4 million GT from new Members.

The addition of 17 new Members at renewal represented a very satisfactory continued development of the Club. However, there were a few Members with whom renewal was not possible and relatively few others where renewal was not offered by the underwriters.

The geographical spread of business continues to change in line with expectations. North's development strategy envisages continued growth in particular regions – and the development of specific geographical areas at this renewal was very much in line with those projections. Areas with significant tonnage growth once again included China, Germany, Greece and South Korea.

The present geographical spread of business by GT is:

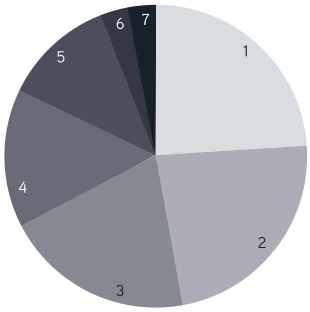
Northern Europe	24%
Southern Europe	23%
Far East	21%
Middle East	14%
Scandinavia	12%
Americas	3%
Others	3%

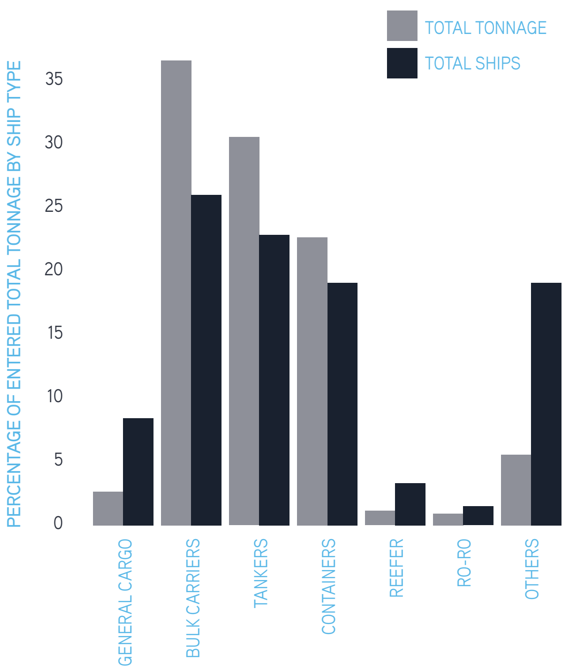
The Club remains focused on "traditional" shipping and counts bulk carriers, tankers and containerships amongst its core entered fleet, with these three ship sectors accounting for nearly 90% of the Membership by ship type. More specifically:

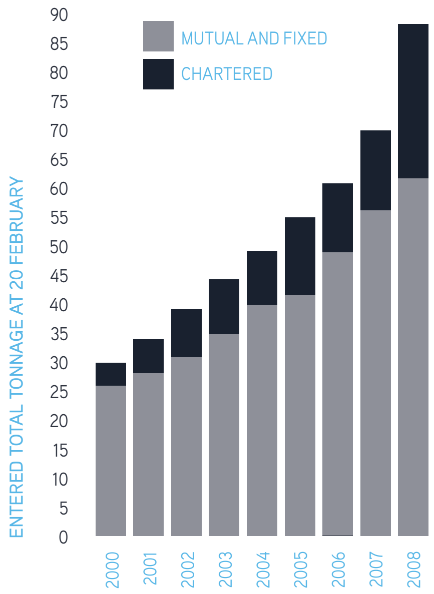
Bulk carriers	36%
Tankers	30%
Containerships	23%
General cargo ships	3%
Reefers	1%
Ro-Ro ships	1%
Other ship types	6%

TOTAL ENTERED TONNAGE
(BY AREA OF MANAGEMENT)

1	Northern Europe	24%
2	Southern Europe	23%
3	Far East	21%
4	Middle East	14%
5	Scandinavia	12%
6	Americas	3%
7	Others	3%







As in previous years, North has enjoyed tremendous Membership support and considerable organic growth. Clearly, the world fleet has grown considerably over the 12 months covered by this report so that growth might, to some extent, have been expected, but the significant growth of our Membership, which proportionately far exceeds that of world fleet growth over the same period, is particularly satisfying.

Numerous Members who added tonnage to their existing North entry during the policy year cited the Club's strong financial position and strong service ethos as the key factors in their decision.

For owners considering their P&I options, whether at renewal or when they acquire additional tonnage, service remains the key differentiating factor, alongside financial reliability and Membership quality.

The undoubted service ethos of the Club, based on our determination to act as an extension of our Members' offices, is recognised throughout the industry.

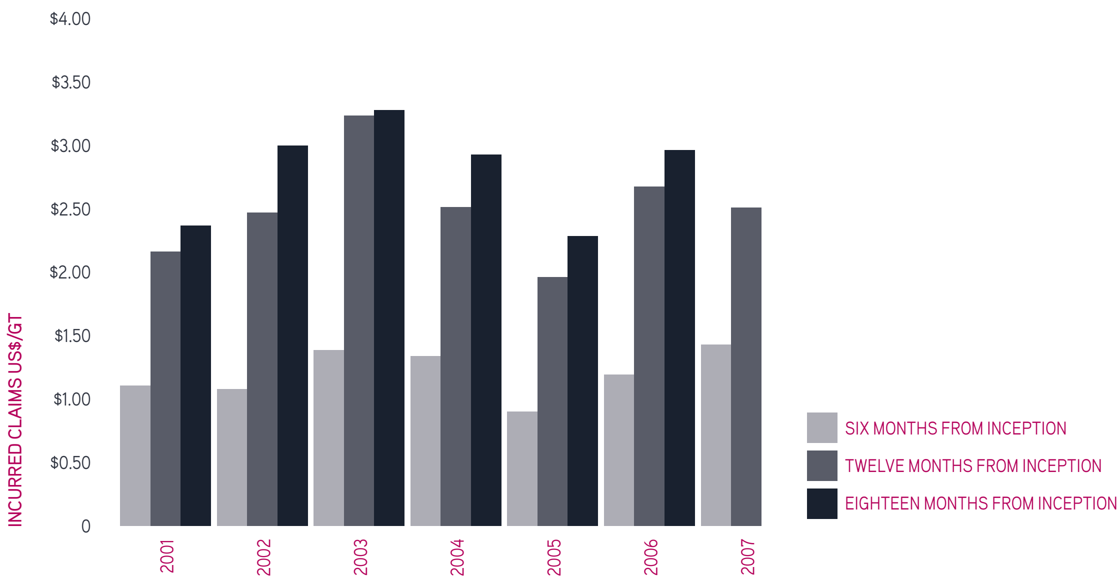
North is also one of the financially strongest Clubs in the International Group, something which was recognised in the reaffirmation of our full 'A' rating in January 2008 – the fourth consecutive year Standard & Poor's has awarded North an 'A' rating. Our financial strength and stability is reinforced by our increase in free reserves to US$220 million and increase in net assets to a record high of US$678.8 million.

Our Membership continues to grow and with an owned tonnage of 65 million GT and 25 million GT of chartered business, we are delighted with the progress that North has made to date.

Quality both in terms of service and Membership continues to strengthen the Club.

P&I CLAIMS

- Increase in claim numbers from 4,713 to 5,256
- Total value of retained claims up, but average value down
- Claims climate remains tough



The 2007 policy year was another difficult year for P&I claims. In previous years we have reported a trend of reducing claim numbers but increasing claim values. In 2007 we actually saw an increase in claim numbers in comparison to the 2006 policy year, although the increase is broadly proportional to the increase in entered tonnage.

Overall, the percentage of claim numbers by type remains remarkably consistent year on year. However, the volatility of claims is once again demonstrated by a fall in the number of collision claims yet a significant increase in the value of those same claims. Almost 99% of the number of claims handled by the P&I claims team fell below US$500,000, whilst the remainder cost US$112 million, which is approximately 60% of the total cost.

The industry is suffering from an increase in the number of large value claims which leads to volatility. Pool claims in 2007/2008 are currently running at lower levels than in 2006/2007 but are nevertheless at a very high level.

A review of our own claims shows that whilst claim numbers are up, the average value of each claim has fallen from US$37,870 to US$36,267. However, of increasing concern is the increase in the number of claims which exceed US$1 million. In 2007/2008 there were 32 claims which exceeded US$1 million compared with 25 in 2006/2007 and 13 in 2005/2006 at the same point in time.

Of the 32 claims over US$1 million in 2007, 10 were cargo claims, 5 collisions, 4 fixed and floating object claims, 3 personal injury/death claims, 2 pollutions and 2 groundings.

The two main areas of increased claims values in 2007 are collision and damage to fixed and floating object claims. In the case of collisions, the cost of repairs together with a large loss-of-use element is clearly a factor. In many cases this is exacerbated by a lack of available dry docks and repair facilities in many parts of the world leading to increased loss of time following an incident and a lack of competition on repair cost pricing from the available yards.

The increased cost of fixed and floating object claims may also be attributable in part to rising material and labour costs. However, there are also indications that environmental concerns are giving rise to more complex repair operations.

The majority of the collisions that are reported and, of course, almost all of the fixed and floating object claims, occur in confined waters, usually with a pilot on board. There is a tendency simply to attribute many of these claims to pilot error – and there is no doubt that this plays a significant part in many claims. However, we should not lose sight of the fact that operating in confined waters is a joint operation involving both the ship's master and crew and the pilot, with the latter dealing with issues of local knowledge and the former bringing expertise on the manoeuvring characteristics of the ship.

In specific trades and in certain areas, where ships regularly call at the same ports, consideration should perhaps be given to the possibility of joint training of pilots, ship and tug crews. Despite the fact that the three parties are required to work together as a team, there is at present very little joint training of this type.

There is plenty of evidence to suggest that those on board do not expect to have problems once the pilot is on board. Although the ship is responsible in the event of an incident, the master and officers are often happy to hand over control without proper dialogue or discussion on the approach. There is also a reluctance to challenge a pilot when an officer suspects something is going wrong. Such problems with pilots have always existed – but in the current climate, they are likely to get worse, as crew on board may not be experienced or confident enough to challenge or even correct a pilot's actions.

A review of North of England's larger claims during 2007 indicates, perhaps unsurprisingly, that human error features as a significant factor in claims. The critical shortage of quality crew, perhaps a lack of training, and increased pressures on board ship are all key factors behind this problem. In some cases, analysis suggests that if the crew had been able to deal with problems such as heavy weather, pilot error or mechanical breakdown or failure, the resulting claim could have been avoided or at least been less expensive.

The increasing automation of vessels is another key point to consider. Automation can increase safety and efficiency, but what happens when it goes wrong? The crew must be able to "think on their feet", and act on their own initiative and it is in this area where lack of experience may be most exposed.

What is perhaps more surprising is that passage planning and operational procedures were each identified as having a causative effect in over 40% of the large claims. This highlights the need for ship operators not only to ensure that there are proper procedures for their vessels but also that they are being followed by the vessel crews. We can expect this to become increasingly important in the future as it is likely that ship's crews will move between employers more often in an increasingly competitive employment market.

In discussions with our Members, it is clear that recruitment continues to be a serious concern. It is inevitable that shortages in the labour market will give rise to increasing problems with crew competence and experience. This message has been a repeated theme in the media, with comments and concern coming from many areas of the industry. What is unclear is the extent to which the industry as a whole is addressing these concerns. The world fleet is due to grow considerably over the next few years and in order to ensure an adequate supply of trained and experienced seafarers, that process has to begin well in advance of delivery of the vessels.

Trained seafarers cannot be obtained in a short period. It may be self-evident but if the requirement for crew increases by 10% in the next two years, then in order to be able to ensure that there are adequate crew with a minimum of two years' experience to man the ships then logically the manning now should be greater than current requirements. With the massive development and expansion of the world fleet both in terms of tonnage and the number of ships afloat, the maths is clear and the figures do not add up. Even now we need more competent and capable seafarers, but where will the extra people come from for the future?

The industry recognises the shortages – but must act now to rectify the problem. It will be increasingly difficult to recruit quality young people whilst issues of criminalisation, leave periods and status remain largely unaddressed in some areas of the world.

It is the drive towards the retention of experienced officers and crews and the recruitment and encouragement of more young, resourceful seafarers which will shape the claims profile for many years to come.

Conclusion

Over the years we have seen a stabilisation in the incidence of claims, particularly when the continued expansion of the entry is factored into the equation. This is particularly true in respect of people claims in terms of both number and cost, where pre-employment medicals, the use of personal protective equipment and improved procedures may be having a positive effect.

The significant cost of a relatively small number of high-value claims is perhaps the most serious claims problem we face. There is no simple solution but by maximising the use of more experienced officers and crews on board ship it is to be hoped that the perils of the sea and the challenges of navigation will be better managed.

There is nothing to suggest that the claims position is likely to improve in the near future.

The Club has continued to strengthen its claims team through the recruitment of new staff and continued training of existing claims handlers. In particular, a number of experienced and very capable people have been recruited to North's worldwide P&I claims team. We will continue to ensure that we have the necessary expertise and resources to provide the best possible service to Members.

Our Singapore office is now fully operational and proving very popular with local Members, who are increasingly seeking advice on a range of issues. Our Hong Kong office continues not only to assist Far East-based Members but also to deal with claims for other Members with ships trading in the region – particularly in China, which can be a very difficult jurisdiction. Both claims teams have been further strengthened during the year to meet these challenges and the requirements of the Club's increased Membership.

RISK MANAGEMENT

- Loss Prevention Working Party formed
- Club's key role in highlighting issues
- Helping Members compensate for lack of experience

The success, or otherwise, of loss prevention work is very difficult to measure but at North we believe that our two principal service areas – the promulgation of information and advice, and the provision of seminars and workshops – can assist Members in two key areas of their own programmes; managing potential problems and their solutions, and providing an additional source of training for their staff.

Above all, we recognise that the loss prevention service we provide must fit our Members' needs. During 2007, we formed a Loss Prevention Working Party, comprising representatives of our Members, to help identify those needs and find the best ways of meeting them.

This group is playing a key role in advising on loss prevention issues and projects. Measures to encourage feedback from Members on loss prevention issues and the introduction of electronic versions of the Club's loss prevention guides are just two of the initiatives that have resulted directly from the working party's discussions.

The working party has recommended investigation of pilot error issues and we have set up a system through which Members can report pilot related incidents to us.

Members are encouraged to provide loss prevention feed back so that we can better meet their needs. We would urge Members to respond with any comments on this important area of the Club's work.

In general, our Members are making good use of the information and industry news that we supply. We aim to act as a "highlighting" or "consolidating" service – sifting through information on our Members' behalf, in order to provide them with the information that is directly relevant to the operations of their ships.

At the same time, we emphasise individual service, whether it is responding to a specific query, providing particular information or advice, or visiting a Member to provide in-house workshops or seminars. We believe that our focus on tailor-made events rather than the delivery of large public seminars sets us apart. This individual approach gives us regular direct communication with seafarers, technical staff, superintendents and commercial personnel, thus enabling us to deliver the loss prevention message where it should be – with owners and their staff both ashore and afloat.

There is no doubt that a major challenge facing the shipping industry today is the recruitment and retention of sufficient qualified and competent seafarers for the safe operation of existing ships, as well as for the enormous number of new ships under construction. Perhaps, however, a larger challenge is how to compensate for the lack of experience of some of those seafarers, particularly as a result of their limited sea time and more rapid promotion.

This limited experience can result in what should be "minor" episodes developing into major incidents and subsequently significant claims.

Ship operators' loss prevention programmes can help overcome this problem – making up for lack of experience through the provision of additional information and guidance. Admiralty claims, including collisions and damage to property, are a particular concern in this respect, but personal injury and cargo claims can also result from seafarers' lack of common sense and experience.

Service provision remains at the heart of North's company ethos. Our risk management department integrates loss prevention and survey services within the same department and emphasises their interdependence. This dual role has benefits for our staff, enabling them to call upon and share a wide range of knowledge and experience, which is particularly useful when providing advice or answering Members' enquiries.

The loss prevention service is intended to complement our Members' own initiatives by providing information and assistance. As part of this strategy, we provide general loss prevention information to the Membership as a whole and focus on longer-term projects such as our extensive range of publications and training programmes. We also provide direct support to individual Members and associated organisations.

Loss prevention programmes require good quality information as a basis for the process of risk assessment. Information about new issues, claim trends or problems relating to particular ship types, cargoes or geographical areas are an essential part of this process. Keeping up to date with the unremitting flow of national and international legislation is both challenging and time-consuming. We provide information about potential problems and suggest possible solutions.

We believe it is important to provide 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, Members often have a more urgent need to be kept up to date with current issues. Our electronic information services therefore include our website-based industry news service and monthly electronic newsletter summarising current issues, as well as an RSS feed that allows Members' staff to receive news items directly to their computer. This service can raise awareness of potential problems or address specific issues – for example, when trading to a particular geographical area, operating a particular type of ship or carrying a specific type of cargo. We have also started producing electronic versions of our series of loss prevention guides exclusively for Members, including our popular Bills of Lading guide.

Provision of a loss prevention service directly to individual Members often involves answering enquiries by e-mail or telephone. However, the more proactive side of this service is intended to assist with Members' own loss prevention programmes by providing the additional information and guidance mentioned earlier. This includes organising seminars, training courses and workshop programmes, which may consider loss prevention issues raised by analysing claims trends in the Club.

These bespoke programmes, designed to meet a Member's particular needs, can be delivered at the Member's office or other venues to both their shore and sea staff. Our risk management team, supported by other Club staff, delivered some 100 seminars and workshops in 2007.

We can also provide a structured programme of in-house training for Members' personnel at our Newcastle head office. The personal relationships built up between people in our Members' offices and our own staff is vitally important; those relationships help to create a firm foundation for working together, based on a mutual understanding of each other's organisations.

Our loss prevention service also extends to other organisations associated with our Members. For example, we provide publications for training institutions and deliver seminars and workshops at nautical schools, colleges and other training institutions which are used by our Members. We also liaise regularly with other industry bodies about areas of common interest – such as pilotage, stowaways and the carriage of certain cargoes.

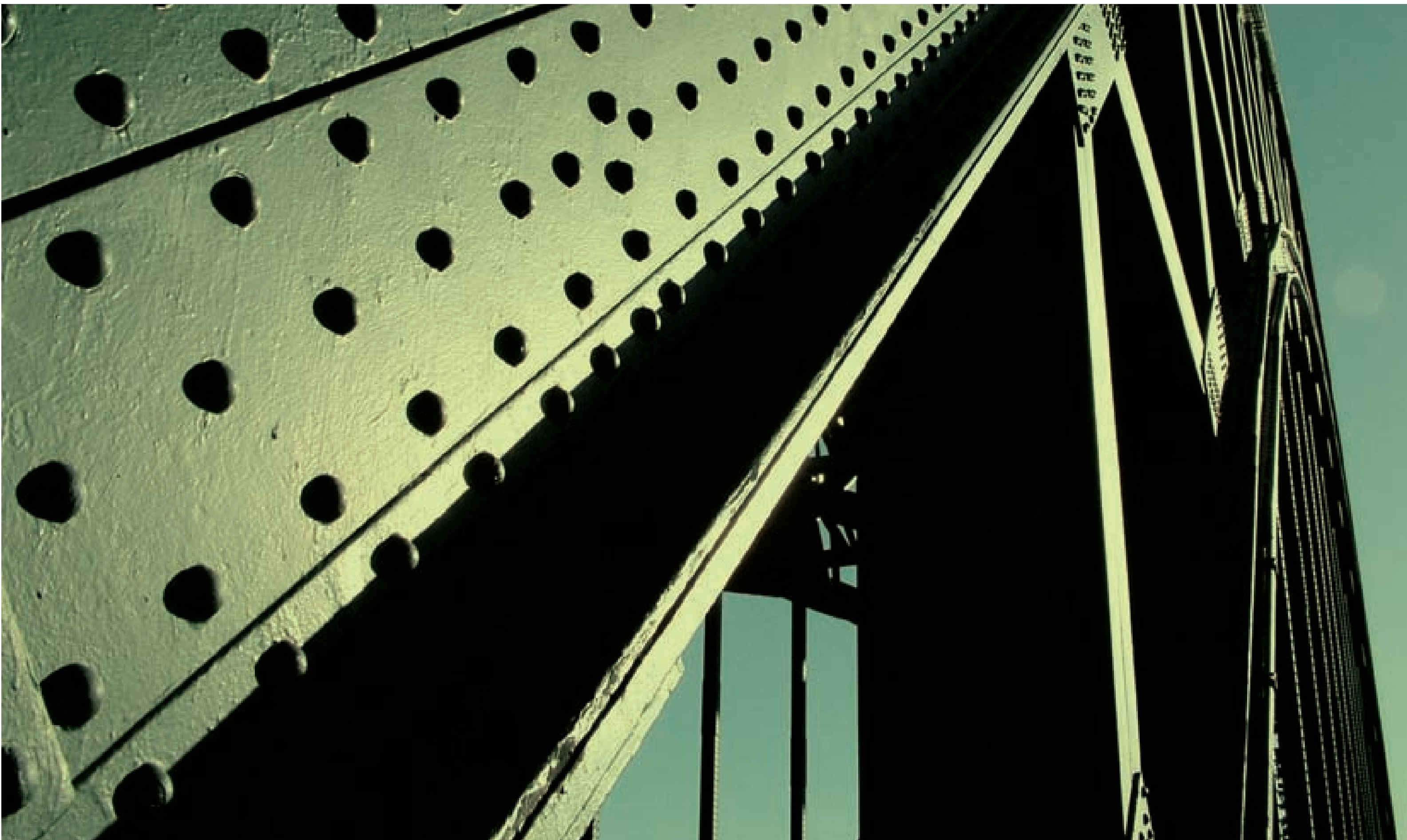
We are committed to ensuring that North's Membership quality is maintained at a high standard. Ships are regularly inspected by classification society surveyors, Port State Control officers and others, but Clubs in the International Group of P&I Clubs also carry out routine surveys of ships according to the harmonised requirements of the Group.

These surveys are focused on the risks associated with P&I and are therefore not intended to replace or duplicate those carried out by classification societies or Port State Control. P&I inspections are carried out by independent surveyors and can help Members to introduce measures to control those risks and prepare for surveys and audits by other bodies.

North uses the electronic condition survey form developed by the International Group. This is used by most of the leading Group Clubs and has benefits for all parties in terms of efficiency and securing the best value from the surveyors undertaking this vital work, as well as producing a consistent approach to surveys carried out by different P&I Clubs and surveyors.

We are looking to develop a system of electronic loss prevention briefings. To be based on our website, these briefings will address current and emerging topics of concern and will be updated regularly.

Risk management and loss prevention remains a very important area of our service to the wider membership and this is evidenced by the strong support provided by the shipowner directors of the Club.



FD&D

- Sums in dispute remain at high levels
- Bunkers, late redeliveries and newbuildings are all areas for concern
- Encouraging mediation where appropriate

North's FD&D Class grew considerably during the policy year to stand at 64 million GT and 2,143 ships at 20 February 2008 following the renewal.

Whilst the number of claims notified in the 2007 policy year rose to 1,282, from 1,088 in the 2006 policy year, this increase was lower than might have been expected, particularly bearing in mind the growth in Membership. Similarly the number of general enquiries increased to 1,442 in the 2007 policy year, compared with 1,396 in the 2006 policy year but in percentage terms this increase was not significant when compared with the growth in Membership.

Whilst there was a degree of volatility in freight markets during the year, the overall trend in rates continued upwards. This inevitably had the effect that sums in dispute remained at high levels but it also meant that we did not experience a dramatic change in the types of disputes and enquiries being notified.

In a trend continuing from the previous year, a significant number of claims were notified to the FD&D Department concerning the quality of bunkers supplied to vessels. The fact that the industry has seen a number of cases where off-spec fuel has been provided is, perhaps, a reflection of high bunker prices, the ever-increasing size of the world fleet (and the associated increase in demand for fuel) and, in some cases, requirements for low-sulphur fuel having an impact on the quality of IFO available.

We also continued to see a number of disputes relating to the late redelivery of vessels employed under time charterparties. In circumstances where freight and hire rates have continued to rise, time charterers are, inevitably, keen to retain vessels as long as possible. On occasions, the result is that the owner questions the charterer's final voyage orders and/or the fact that the vessel is redelivered late (and in breach of the terms of the charterparty).

The Club's FD&D Department has also continued to see disputes relating to the question of whether a particular cargo supplied by charterers is one which owners are obliged to carry under the terms of the charterparty. In many cases, the problems arise out of continuing high levels of demand for raw materials, causing shippers to produce cargoes (such as wet nickel ore and wet iron ore) which are potentially dangerous for the vessel to carry.

Meanwhile, newbuilding contracts are an area generating an increasing number of enquiries and concern. The increase in steel prices, and the significant number of newbuilding orders placed in the past few years, are both now having an impact on the ability of some yards to meet their obligations. Indeed, a number of newbuilding contracts have been cancelled and there have been several instances of yards attempting to renegotiate the purchase price and/or delivery date for the newbuilding in question.

It is anticipated that problems relating to newbuilding contracts will continue to arise and that the position may well worsen in the coming years – leading to some potentially very expensive disputes. Underwriters will continue to monitor carefully new enquiries, declining newbuilding risks where it is considered to be an un-desirable or non-mutual risk.

North's FD&D team continues to place great importance on the level of service and advice provided to Members on a daily basis. As well as providing guidance and advice to Members in relation to their enquiries and disputes, lawyers in the FD&D department regularly provide seminars to individual Members, at their request and tailored to meet their specific needs.

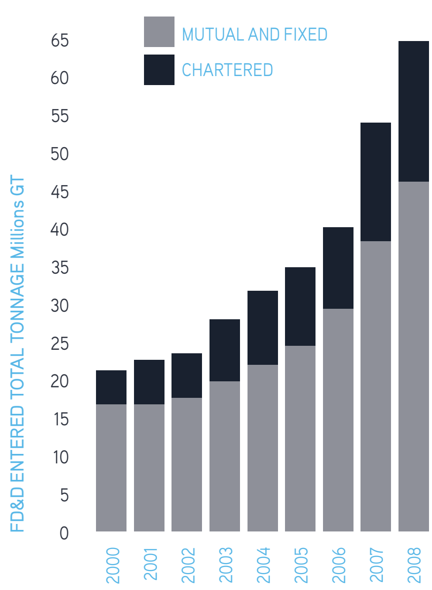
We remain committed to providing the FD&D membership with the highest levels of service available in the industry and, in light of the recent significant increase in the Membership, we have recruited more people to our FD&D team. Three experienced FD&D lawyers joined the department in the 2007 policy year and a further two will join the team.

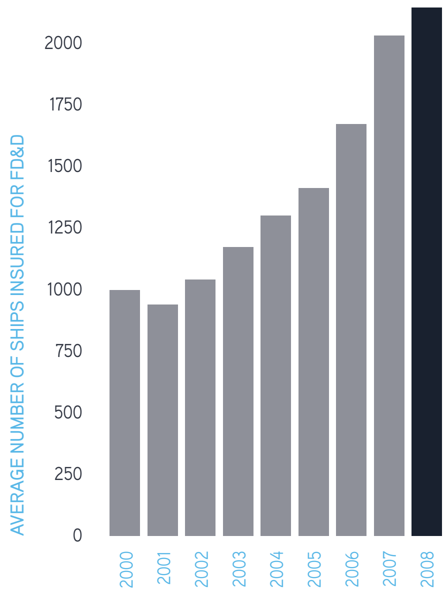
In an effort to further enhance the provision of FD&D service to our Far East Membership, one of the FD&D lawyers relocated from Newcastle to the Singapore office in August 2007.

The FD&D team is always committed to resolving disputes as expeditiously and efficiently as possible and is active in encouraging and assisting Members to use mediation in disputes, where appropriate.

The FD&D class recorded an investment return of 7.07% amounting to US$2.6 million. Despite the increase in the number of claims handled by the FD&D team free reserves increased from US$11.1 million to US$14.3 million at 20 February 2008.

The potential for an increased number of large value claims, if there is a downturn in the freight market and/or if a number of newbuilding disputes arise, means that the continued financial strength of the class remains a priority. In order to maintain the financial stability the FD&D general increase was set at 10% for the 2008 renewal.





COMBINED FINANCIAL STATEMENTS

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
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 25 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

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements

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 2008 ("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 2008.

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 2008. The auditor's report on the statutory consolidated financial statements of NEPIA was issued by ourselves on 20 May 2008 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 2008. The auditors' report on the statutory financial statements of NoE(Bermuda) was issued by ourselves on 19 May 2008 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); and
b. With respect to item 3 we found that the combined financial statements working papers, including the policy year statement, are numerically accurate.
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 2008.

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
20 May 2008

COMBINED BALANCE SHEET FOR THE YEAR ENDED 20 FEBRUARY 2008

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

	Note	2008	2007
ASSETS			
Intangible assets		1,736	1,390
Property, plant and equipment		15,837	15,875
Financial assets			
Equity securities - at fair value through income	3	103,632	202,673
Debt securities - at fair value through income	3	466,777	314,769
Loans and receivables including insurance and reinsurance receivables		15,938	14,271
Derivative financial instruments		–	184
Retirement benefit asset		16,468	16,715
Reinsurance contracts	5	155,623	120,080
Cash and cash equivalents	4	79,894	85,529
Total assets		**855,905**	**771,486**
ACCUMULATED SURPLUS			
Income and expenditure account		(46,047)	(63,343)
Contingency funds	13	258,258	245,657
Revaluation reserve		7,807	7,927
Total accumulated surplus		**220,018**	**190,241**
LIABILITIES			
Insurance contracts	5	614,426	563,781
Reinsurance payables		10,454	7,294
Cash and cash equivalents		2,138	–
Derivative financial instruments		67	–
Trade and other payables		8,305	9,501
Current tax liabilities		497	669
Total liabilities		**635,887**	**581,245**
Total accumulated surplus and liabilities		**855,905**	**771,486**

COMBINED INCOME STATEMENT AT 20 FEBRUARY 2008

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

	Note	2008	2007
Insurance premium revenue		213,015	193,535
Insurance premium ceded to reinsurers	6	(34,477)	(28,631)
		178,538	164,904
Investment income		2,992	2,353
Net fair value gains at fair value through income	7	36,807	53,775
Net income		**218,337**	**221,032**
Insurance claims and loss adjustment expenses	8	(208,498)	(228,920)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	46,369	49,201
Net insurance benefits and claims		(162,129)	(179,719)
Expenses for the acquisition of insurance and investment contracts	10	(18,721)	(16,670)
Expenses for marketing and administration	11	(9,640)	(10,809)
Expenses for asset management services rendered		(1,809)	(1,527)
Expenses		**(192,299)**	**(208,725)**
Results of operating activities		26,038	12,307
Finance income	12	5,201	9,631
Surplus before tax		31,239	21,938
Tax expense		(1,342)	(1,282)
Surplus for the year		**29,897**	**20,656**

NOTES TO THE ACCOUNTS

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

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 2008 and 20 February 2007. 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. 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 Standard which has not been applied in these financial statements was in issue but not yet effective:

IFRS 8 "Operating segments"

In November 2006, the IASB issued IFRS 8, Operating Segments, the requirements of which are applicable for accounting periods beginning on or after 1 January 2009. On adoption, it will result in amendments to the disclosure of our segmental results but will have no impact on the results overall.

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.

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

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.

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.

NOTES TO THE ACCOUNTS CONTINUED

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

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.

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.

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

Interest

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

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 2008 (2007 – nil).

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

	2008			2007
United Kingdom	£0.515	=	US$1	(£ 0.511)
Euro	€ 0.683	=	US$1	(€ 0.760)
Japan	YEN108.035	=	US$1	(YEN 120.105)

NOTES TO THE ACCOUNTS CONTINUED

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS

The segment financial positions for the year ended 20 February 2008 are shown below:

Balance Sheet

	Note	P&I	FD&D	War Risks	Total
ASSETS					
Intangible assets		1,736	–	–	1,736
Property, plant and equipment		15,837	–	–	15,837
Financial assets					
Equity securities:					
– at fair value through income	3	102,488	–	1,144	103,632
Debt securities:					
– at fair value through income	3	425,275	38,672	2,830	466,777
Loans and receivables including insurance and reinsurance receivables		14,222	1,696	20	15,938
Retirement benefit asset		16,468	–	–	16,468
Reinsurance contracts	5	155,623	–	–	155,623
Cash and cash equivalents	4	77,368	1,228	1,298	79,894
Total assets		**809,017**	**41,596**	**5,292**	**855,905**
ACCUMULATED SURPLUS					
Income and expenditure account		(43,404)	(7,374)	4,731	(46,047)
Contingency funds	12	236,589	21,669	–	258,258
Revaluation reserve		7,807	–	–	7,807
Total accumulated surplus		**200,992**	**14,295**	**4,731**	**220,018**
LIABILITIES					
Insurance contracts	5	587,227	27,199	–	614,426
Reinsurance payables		10,082	270	102	10,454
Cash and cash equivalents		2,138	–	–	2,138
Derivative financial instruments		67	–	–	67
Trade and other payables		8,014	(168)	459	8,305
Current tax liabilities		497	–	–	497
Total liabilities		**608,025**	**27,301**	**561**	**635,887**
Total accumulated surplus and liabilities		**809,017**	**41,596**	**5,292**	**855,905**

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS (continued)

The segment results for the year ended 20 February 2008 are shown below:

Income Statement

	Note	P&I	FD&D	War Risks	Total
Insurance premium revenue		198,652	13,669	694	213,015
Insurance premium ceded to reinsurers	6	(33,404)	(613)	(460)	(34,477)
		165,248	13,056	234	178,538
Investment income		2,953	29	10	2,992
Net fair value gains at fair value through income	7	34,048	2,609	150	36,807
Net income		**202,249**	**15,694**	**394**	**218,337**
Insurance claims and loss adjustment expenses	8	200,038	8,460	-	208,498
Insurance claims and loss adjustment expenses recovered from reinsurers	9	(46,631)	262	-	(46,369)
Net insurance benefits and claims		153,407	8,722	-	162,129
Expenses for the acquisition of insurance and investment contracts	10	17,880	832	9	18,721
Expenses for marketing and administration	11	6,615	2,818	207	9,640
Expenses for asset management services rendered		1,768	7	34	1,809
Expenses		**179,670**	**12,379**	**250**	**192,299**
Results of operating activities		22,579	3,315	144	26,038
Finance income	12	5,234	(42)	9	5,201
Surplus before tax		27,813	3,273	153	31,239
Tax expense		(1,254)	(84)	(4)	(1,342)
Surplus for the year		**26,559**	**3,189**	**149**	**29,897**

NOTES TO THE ACCOUNTS CONTINUED

North of England P&I Association Limited and North of England Mutual Insurance Association (Bermuda) Limited
20 February 2008
Combined Financial Statements
(All Amounts in US Dollar thousands unless otherwise stated)

2. SEGMENTAL ANALYSIS BY CLASS (continued)

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**

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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**

NOTES TO THE ACCOUNTS CONTINUED

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3. FAIR VALUE SECURITIES

	At 20 February 2008			
	P&I	FD&D	War Risks	Total
Market value				
Equity securities – at fair value through income	102,488	–	1,144	103,632
Debt securities – at fair value through income	425,275	38,672	2,830	466,777
	527,763	**38,672**	**3,974**	**570,409**
Cost				
Equity securities – at fair value through income	104,827	–	619	105,446
Debt securities – at fair value through income	406,450	36,259	1,981	444,690
	511,277	**36,259**	**2,600**	**550,136**

	At 20 February 2007			
	P&I	FD&D	War Risks	Total
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**

4. CASH AND CASH EQUIVALENTS

	At 20 February 2008			
	P&I	FD&D	War Risks	Total
Cash at bank and in hand	65,234	1,228	1,298	67,760
Short-term bank deposits	12,134	–	–	12,134
	77,368	**1,228**	**1,298**	**79,894**

	At 20 February 2007			
	P&I	FD&D	War Risks	Total
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**

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5. INSURANCE CONTRACTS

Policy year analysis

	Closed years	2005	Open policy years 2006	2007	Handling reserve	Total
ALL CLASSES						
At 20 February 2008						
Gross outstanding claims	187,091	57,588	148,232	199,015	22,500	614,426
Reinsurance amount	61,199	(3,527)	54,828	43,123	–	155,623
Net outstanding claims	**125,892**	**61,115**	**93,404**	**155,892**	**22,500**	**458,803**
At 20 February 2007						
Gross outstanding claims	245,176	99,829	198,276	–	20,500	563,781
Reinsurance amount	69,155	9,358	41,567	–	–	120,080
Net outstanding claims	**176,021**	**90,471**	**156,709**	**–**	**20,500**	**443,701**

	Closed years	2005	Open policy years 2006	2007	Handling reserve	Total
P&I CLASS						
At 20 February 2008						
Gross outstanding claims						
Members	165,054	51,686	126,004	161,357	16,500	520,601
Pooling agreement	15,987	3,304	17,899	29,436	–	66,626
	181,041	**54,990**	**143,903**	**190,793**	**16,500**	**587,227**
Reinsurance amount						
Recoveries due under the pooling agreement	22,935	2,728	9,452	97	–	35,212
Recoveries due from reinsurers	38,264	(6,255)	45,376	43,026	–	120,411
	61,199	**(3,527)**	**54,828**	**43,123**	**–**	**155,623**
Net outstanding claims	**119,842**	**58,517**	**89,075**	**147,670**	**16,500**	**431,604**
At 20 February 2007						
Gross outstanding claims	235,720	95,267	191,289	–	15,500	537,776
Reinsurance amount	69,155	9,093	41,567	–	–	119,815
Net outstanding claims	**166,565**	**86,174**	**149,722**	**–**	**15,500**	**417,961**

NOTES TO THE ACCOUNTS CONTINUED

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5. INSURANCE CONTRACTS (continued)

	Closed years	Open policy years 2005	2006	2007	Handling reserve	Total
FD&D CLASS						
At 20 February 2008						
Gross outstanding claims	6,050	2,598	4,329	8,222	6,000	27,199
Reinsurance amount						
Recoveries due from reinsurers	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**
Net outstanding claims	**6,050**	**2,598**	**4,329**	**8,222**	**6,000**	**27,199**
At 20 February 2007						
Gross outstanding claims	9,456	4,562	6,987	–	5,000	26,005
Reinsurance amount	–	265	–	–	–	265
Net outstanding claims	**9,456**	**4,297**	**6,987**	**–**	**5,000**	**25,740**

War Risks Class

There were no outstanding claims at 20 February 2008 (20 February 2007 – nil).

6. INSURANCE PREMIUM CEDED TO REINSURERS

	Year ended 20 February 2008 P&I	FD&D	War Risks	Total
Market	13,891	613	211	14,715
International Group	19,513	–	–	19,513
War Risks Group	–	–	249	249
	33,404	**613**	**460**	**34,477**

	Year ended 20 February 2007 P&I	FD&D	War Risks	Total
Market	9,893	496	221	10,610
International Group	17,784	–	–	17,784
War Risks Group	–	–	237	237
	27,677	**496**	**458**	**28,631**

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7. NET FAIR VALUE GAINS AT FAIR VALUE THROUGH INCOME

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	9,745	182	–	9,927
Net realised gains / (losses)	2,243	(462)	–	1,781
Net unrealised gains	20,192	2,889	243	23,324
	32,180	**2,609**	**243**	**35,032**
Equities				
Dividends	1,088	–	–	1,088
Net realised gains	6,955	–	915	7,870
Net unrealised losses	(6,175)	–	(1,008)	(7,183)
	1,868	**–**	**(93)**	**1,775**
Total	**34,048**	**2,609**	**150**	**36,807**

	Year ended 20 February 2007			
	P&I	FD&D	War Risks	Total
Debt securities				
Fixed interest	12,443	1,434	–	13,877
Net realised losses	(582)	(61)	–	(643)
Net unrealised (losses) / gains	(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**

NOTES TO THE ACCOUNTS CONTINUED

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8. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Gross claims paid				
Members' claims	108,469	4,378	–	112,847
Other P&I Clubs' pool claims	28,899	–	–	28,899
Claims handling costs	13,219	2,888	–	16,107
	150,587	**7,266**	**–**	**157,853**
Movement in gross outstanding claims				
Members	55,585	1,194	–	56,779
Pooling agreement	(6,134)	–	–	(6,134)
	49,451	**1,194**	**–**	**50,645**
Total gross claims	**200,038**	**8,460**	**–**	**208,498**

	Year ended 20 February 2007			
	P&I	FD&D	War Risks	Total
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**

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9. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES RECOVERED FROM REINSURERS

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Reinsurance recoverable on claims paid				
Claims recoverable from reinsurers	3,720	3	–	3,723
Claims recoverable under the pooling agreement	7,102	–	–	7,102
	10,822	**3**	**–**	**10,825**
Reinsurance recoverable on outstanding claims				
Recoveries due from reinsurers	42,821	(265)	–	42,556
Recoveries due under the pooling agreement	(7,012)	–	–	(7,012)
	35,809	**(265)**	**–**	**35,544**
Total	**46,631**	**(262)**	**–**	**46,369**

	Year ended 20 February 2007			
	P&I	FD&D	War Risks	Total
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**

NOTES TO THE ACCOUNTS CONTINUED

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10. EXPENSES FOR THE ACQUISITION OF INSURANCE AND INVESTMENT CONTRACTS

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Brokerage	11,917	832	9	12,758
Acquisition costs	5,963	–	–	5,963
	17,880	**832**	**9**	**18,721**

	Year ended 20 February 2007			
	P&I	FD&D	War Risks	Total
Brokerage	10,773	653	6	11,432
Acquisition costs	5,238	–	–	5,238
	16,011	**653**	**6**	**16,670**

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 2008. The Ratio of 9.2% (2007 – 9.1%) 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).

11. EXPENSES FOR MARKETING AND ADMINISTRATION

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Gross marketing and administration expenses	28,174	5,706	207	34,087
Acquisition costs	(5,963)	–	–	(5,963)
Amount recharged to Marine Shipping Mutual Insurance Company Limited	(2,377)	–	–	(2,377)
Claims handling costs	(13,219)	(2,888)	–	(16,107)
	6,615	**2,818**	**207**	**9,640**

	Year ended 20 February 2007			
	P&I	FD&D	War Risks	Total
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**

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12. FINANCE INCOME

	Year ended 20 February 2008			
	P&I	FD&D	War Risks	Total
Foreign exchange income / (expense) on investments	4,988	(152)	-	4,836
Other	246	110	9	365
	5,234	**(42)**	**9**	**5,201**

	Year ended 20 February 2007			
	P&I	FD&D	War Risks	Total
Foreign exchange income on investments	5,562	1,505	-	7,067
Mortgage interest	(104)	-	-	(104)
Other	2,520	191	(43)	2,668
	7,978	**1,696**	**(43)**	**9,631**

13. CONTINGENCY FUNDS

Protecting & Indemnity Class

	2008	2008	2007	2007
Balance at 20 February 2007		223,721		192,103
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / (losses) and income	7,523		42,335	
Surplus transferred from closed policy years	5,345		16,083	
Transfer to the 2006 policy year	-		(26,800)	
		12,868		31,618
Balance at 20 February 2008		**236,589**		**223,721**

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

Freight, Demurrage & Defence Class

	2008	2008	2007	2007
Balance at 20 February 2007		21,936		18,585
The transfer from the Income and Expenditure account comprises:				
Allocation of realised investment gains / (losses) and income	(1,481)		2,358	
Surplus transferred from closed policy years	1,214		993	
		(267)		3,351
Balance at 20 February 2008		**21,669**		**21,936**

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

NOTES TO THE ACCOUNTS CONTINUED

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14. INTERNATIONAL GROUP DISCLOSURE

Disclosure for the International Group accounting requirements in respect of outstanding reinsurance recoveries on paid claims in the P&I Class is as follows:

	2008	2007
Recoveries due under the pooling agreement	260	186
Recoveries due from other reinsurers	866	940
	1,126	**1,126**

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:

	2008	2007
Gross outstanding claims		
Members	55,585	83,476
Pooling agreement	(6,134)	26,038
	49,451	**109,514**
Reinsurers' share		
Recoveries due from reinsurers	(42,821)	(24,007)
Recoveries due under the pooling agreement	7,012	(18,409)
	(35,809)	**(42,416)**
Movement in net outstanding claims	**13,642**	**67,098**

COMBINED P&I CLASS POLICY YEAR STATEMENT

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	Closed Years	2005/ 2006	2006/ 2007	2007/ 2008	Claims Handling Reserve	Contingency Fund	Unrealised Gains	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		155,636	169,710	–	–	–	–	325,346
Invoiced in Current Year		46	1,632	184,679	–	–	–	186,357
		155,682	171,342	184,679	–	–	–	511,703
Release Premium		290	201	210	–	–	–	701
		155,972	171,543	184,889	–	–	–	512,404
Reinsurance Premiums		(25,226)	(30,258)	(37,253)	–	–	–	(92,737)
		130,746	141,285	147,636	–	–	–	419,667
Investment income, gains on sales of investments, and exchange movements		15,931	18,607	20,694	–	154,152	16,487	225,871
Transfers		–	26,800	–	–	85,502	–	112,302
		146,677	186,692	168,330	–	239,654	16,487	757,840
Members' & Pool Claims		(64,735)	(74,332)	(33,959)	–	–	–	(173,026)
Expenses & Tax		(21,582)	(26,401)	(28,819)	–	(3,065)	–	(79,867)
Surplus Available on Closed Years	119,842	–	–	–	–	–	–	119,842
Balances Available for Outstanding Claims	119,842	60,360	85,959	105,552	–	236,589	16,487	624,789
Outstanding Claims	(181,041)	(54,990)	(143,903)	(190,793)	(16,500)	–	–	(587,227)
Reinsurance Recoveries	61,199	(3,527)	54,828	43,123	–	–	–	155,623
	(119,842)	(58,517)	(89,075)	(147,670)	(16,500)	–	–	(431,604)
Revaluation Reserve	–	–	–	–	–	–	–	7,807
Surplus / (Deficit) at 20 February 2008	**–**	**1,843**	**(3,116)**	**(42,118)**	**(16,500)**	**236,589**	**16,487**	**200,992**
Surplus / (Deficit) at 20 February 2007	(15,157)	(9,545)	(19,361)	–	(15,500)	223,721	2,468	174,553

NOTES TO THE COMBINED P&I CLASS POLICY YEAR STATEMENT

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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 2008.

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:

	2005/2006	2006/2007	2007/2008
General and administrative expenses	19,523	23,747	25,797
Investment expenses	1,213	1,410	1,768
Taxation	846	1,244	1,254
	21,582	**26,401**	**28,819**

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.

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

2005/06	US$13.5 million
2006/07	US$14.8 million
2007/08	US$16.2 million

COMBINED FD&D CLASS POLICY YEAR STATEMENT

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	Closed Years	2005/ 2006	2006/ 2007	2007/ 2008	Claims Handling Reserve	Contingency Fund	Unrealised Gains	Total
Premium								
Mutual & Fixed Premium								
Invoiced in Prior Years		9,738	10,497	–	–	–	–	20,235
Invoiced in Current Year		14	172	12,632	–	–	–	12,818
		9,752	10,669	12,632	–	–	–	33,053
Release Premium		16	7	4	–	–	–	27
		9,768	10,676	12,636	–	–	–	33,080
Reinsurance Premiums		(788)	(703)	(845)	–	–	–	(2,336)
		8,980	9,973	11,791	–	–	–	30,744
Investment income, gains on sales of investments, and exchange movements		322	838	1,188	–	4,663	2,413	9,424
Transfers from closed years		–	–	–	–	17,006	–	17,006
		9,302	10,811	12,979	–	21,669	2,413	57,174
Claims		(3,538)	(1,518)	(798)	–	–	–	(5,854)
Expenses & Tax		(5,308)	(4,771)	(5,797)	–	–	–	(15,876)
Surplus Available on Closed Years	6,050	–	–	–	–	–	–	6,050
Balances Available for Outstanding Claims	6,050	456	4,522	6,384	–	21,669	2,413	41,494
Outstanding Claims	(6,050)	(2,598)	(4,329)	(8,222)	(6,000)	–	–	(27,199)
Reinsurance Recoveries	–	–	–	–	–	–	–	–
	(6,050)	(2,598)	(4,329)	(8,222)	(6,000)	–	–	(27,199)
Surplus / (Deficit) at 20 February 2008	**–**	**(2,142)**	**193**	**(1,838)**	**(6,000)**	**21,669**	**2,413**	**14,295**
Surplus / (Deficit) at 20 February 2007	(966)	(2,710)	(1,677)	–	(5,000)	21,936	(476)	11,107

NOTES TO THE COMBINED FD&D CLASS POLICY YEAR STATEMENT

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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 2008.

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:

	2005/2006	2006/2007	2007/2008
General and administrative expenses	5,233	4,661	5,706
Investment expenses	81	85	7
Taxation	(6)	25	84
	5,308	**4,771**	**5,797**

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:

2005/06	US$0.7 million
2006/07	US$0.8 million
2007/08	US$0.9 million

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