DIRECTORS' REPORT & FINANCIAL STATEMENTS

For the Year Ended 20th February 2004

UK P&I CLUB

The United Kingdom Mutual Steam Ship
Assurance Association (Bermuda) Limited

FINANCIAL HIGHLIGHTS

Total funds	$952m
Total liabilities	$733m
Free reserves	$219m

THE RATING AGENCY STANDARD & POOR'S ASSIGNED AN A RATING TO THE CLUB...

...THIS IS THE HIGHEST RATING ASSIGNED CURRENTLY TO A P&I CLUB IN THE INTERNATIONAL GROUP

Contents

CHAIRMAN'S STATEMENT

2003 was a remarkably good year for most shipowners. It has also been a good year for this Association, with extraordinary investment returns combining with an increase in premium to provide a welcome boost to the reserves. In addition we have seen steady growth in the tonnage entered during the year, a reflection not just of additions to existing Members' fleets, but also of the number of owners entering tonnage with the UK Club for the first time.

The investment return of $129 million is a record for the UK Club and is justification of the investment policy. Certainly the weakness of the US dollar has contributed to this, but it should be remembered that dollar strength has reduced the investment return in past years. As it is, the investment return and the increase in premium have pushed up the Association's free reserves by some $40 million over the year.

Looking ahead, however, it would be clearly imprudent to assume investment returns continuing at the level of 2003 – indeed, we plan on the basis of a 5 per cent return per annum, rather than the 18 per cent achieved in 2003. We have also planned for an increase in the level of claims going forward. The mid to late 1990's saw claims reducing slightly, if anything, but they are now increasing. The 2002 policy year was a year of exceptionally heavy claims, not just for this Association but for the marine insurance industry generally, with an unusually high number of major casualties. The 2003 policy year appears to be somewhat better, particularly so far as major incidents are concerned. However, past experience has shown that there is a correlation between liability claims and shipping activity: when ships are busy and in demand, claims tend to increase. Furthermore, we must expect the weaker US dollar to result in an increase in the dollar cost of non-dollar based claims.

It was this scenario – a more modest investment outlook and an upward trend in the claims – that led to the Board's decision to order a significant 17.5 per cent general increase in premiums for 2004, even though the 2003 financial results have been so positive. I and my fellow Directors are determined to maintain the financial strength of the UK Club. We believe that strong finances are what the Members expect.

It is also the case that regulatory authorities are imposing increasingly stringent financial requirements on insurance entities, and we must ensure the Association meets these requirements. Regulatory authorities are also very active in the area of governance issues: in the Review of the Year that follows this is described in greater detail. Suffice it to say that meeting these requirements is making ever greater demands on the Board and on senior management time.

The claims increase is a matter for concern, of course. The UK Club continues to work on ways of reducing claims through loss prevention awareness. This is detailed in the Review of the Year. I would like to commend the Managers for their efforts, and draw particular attention to the DVD "No Room for Error" which focuses on the line of responsibility for human error, leading right up to senior management. I am pleased to see that "No Room for Error" has excited interest and approval from across the industry.

The related area of membership quality is one that has attracted increased attention from legislative and government authorities, particularly in the moves to revise the international Civil Liability Convention for oil pollution (reported on in the Review of the Year). Membership quality has long been a key element of this Association's strategy. It is fundamental to the success of a mutual club that the Members have confidence in the condition of the ships entered and in the commitment of their operators to high standards. In this we see the UK Club as a leader of the industry: the measures adapted by the UK Club to monitor and improve membership quality have been used by the International Group as an illustration of good practice in evidence provided to the IOPC Fund working group.

This is clearly an area of common interest among International Group clubs. The great majority of owners do not deserve the kind of reputation that the industry can suffer from as a result of a few. It is well recognized that it is important to the credibility of the Group that it does not support substandard shipping either overtly or by turning a blind eye to its existence.

In this respect we continue to work with the other Group clubs to improve still further the sharing of information and to tighten underwriting discipline, e.g. through encouraging an increase in the $5 million per claim individual club retention below the Pool.

I now turn to those Directors who have left the Board, and first to be mentioned must be Dato' Haji Mohd Ali bin Haji Yasin, whose sudden death on 19th April, 2004, was a shock to us all. Dato' Ali was a great contributor to Board affairs, displaying an infectious enthusiasm for life and a great sense of humour. He is sadly missed, and on behalf of the Board I express deepest condolences to his family, and to his colleagues at Malaysia International Shipping Corporation.

During the year six other Directors left the Board, namely, Pierre de Demandolx-Dedons, Gwyn Hughes, Masaharu Ikuta, Jorge Kamkoff, Albrecht Metze and Sun Jiakang. All these gentlemen contributed greatly to the affairs of our Association, in particular Pierre and Albrecht who served as Directors for 17 and 12 years respectively. We thank them all and wish them well.

The Annual General Meeting saw the election of eight new Directors, namely Giuseppe Bottiglieri of Bottiglieri di Navigazione, Patrick Decavèle of Broström Tankers, Otmar Gast of Hamburg-Süd, Ian Gaunt of Carnival Corporation, Ma Zehua of Cosco, Bob Malone of BP Shipping, Seyed Seyedan of National Iranian Tanker Co., and Kunio Suzuki of Mitsui OSK Lines. We welcome them to the Board.

I hope you find this year's Review to be of interest. I should like to conclude my statement by thanking the Board and the Managers for their invaluable support. In particular I want to record my gratitude to my three Deputy Chairmen, Tullio Biggi, Dinos Caroussis and Klas Kleberg, for the time they give to the Association and for their invaluable advice and support.

A G Kairis
Chairman

29th April, 2004

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Review of the Year and Financial Statements of the Association for the year ended 20th February, 2004.

Principal activities of the Association

The principal activities of the Association during the year were the insurance and reinsurance of marine protecting and indemnity risks on behalf of the Members.

At 20th February, 2004 the owned tonnage entered in the Association on mutual terms totalled approximately 95 million gross tons. In addition, approximately 30 million gross tons of chartered tonnage was entered in the Association.

The direction and management of the Association

Ultimate control over the Association's affairs rests with the Board of Directors, who are all elected by the shipowner Members of the Association. With the exception of the two Bermuda resident Directors, all the Directors are officers or agents of Members.

The Directors meet on four occasions each year to carry out the general and specific responsibilities entrusted to them under the Rules and Bye-Laws, and a commentary on the matters considered during the past year is contained in the Review that follows.

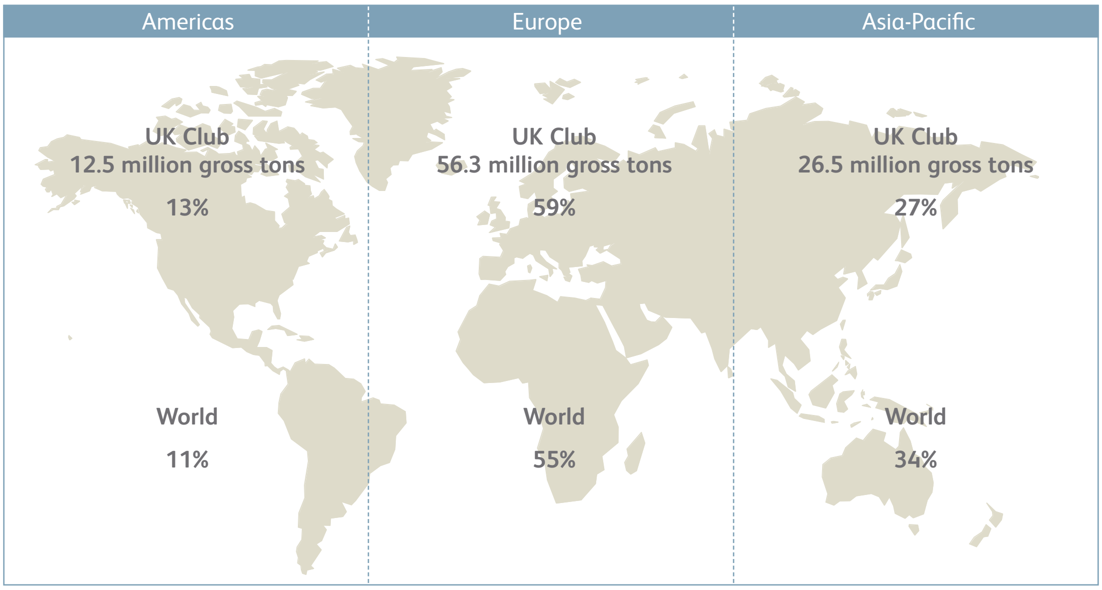
However, because the Directors are themselves active shipowners, and are therefore restricted in the amount of time that they can make available to running the Association's affairs, the Board delegates the day to day running of the Association to the Managers, Thomas Miller (Bermuda) Ltd.

The Managers, through their London agents Thomas Miller P&I Ltd, and also through a network of offices in Asia, America and Europe, form the principal contact between the Association and the Members. In addition to carrying out the policies laid down by the Board, they also act as the conduit for feedback to the Board of the Members' views.

Contact between the Managers and the Board is through the four Board meetings per year, and also through Board sub-committees, in particular through regular contact with the Chairman and Deputy Chairmen at four additional meetings per annum and at other times on an ad hoc basis. In addition, the Chairman and individual Directors are frequently involved with the Managers in meeting with individual shipowner Members to discuss matters of interest.

THE UK CLUB'S MEMBERSHIP SHARES THE SAME GEOGRAPHIC RANGE AS THE WORLD SHIPPING INDUSTRY OVERALL

UK Club tonnage by region



Directors

The present Directors of the Association are shown on page 32. Also shown are those who retired from the Board since February 2003 and the Board wishes to record its thanks to those Directors for the contribution they have made to the work of the Board and the affairs of the Association.

Bye-Law 14 (c)(i) provides for Directors to retire who have been in office for three years since their last election. Consequently Messrs. Al-Roumi, Biggi, Ioannidis, Kleberg, Kopernicki, Kwok, Lee, Lemos and Lykiardopulo will retire at the forthcoming Annual General Meeting in Seoul on 25th October, 2004. These Directors have offered themselves for re-election.

In October 2003, Mr. A. G. Kairis was re-elected as Chairman of the Board of Directors and Messrs. T. Biggi, C. I. Caroussis and K. G. Kleberg were re-elected as Deputy Chairmen.

REVIEW OF THE YEAR

Financial Strength

The year has been notable for a significant increase of some $40 million in the Association's free reserves, notwithstanding an increase of $58 million in the incurred claims. This improvement is due to a record level of investment income at $129 million, allied to a substantial increase in premium.

So far as claims are concerned, the 2002 policy year has proved to be unusually heavy in terms of the number and size of relatively serious accidents. Fortunately there are early indications that the 2003 policy year is not following the pattern of 2002. However, the weaker US dollar has resulted in an increase in the dollar cost of provisions for non-dollar based claims still to be settled.

This same dollar weakness has boosted the investment return, however, with the corresponding increase in the dollar value of the Association's investments in non-dollar securities and cash. The Board's expectation is that investment returns will be modest in the medium term, and it is the Board's policy to maintain premiums at a level where the Association's finances are not unduly reliant on investment income. With this in mind the Board ordered a general increase of 17.5 per cent of premium ratings for the 2004 policy year.

During the year the rating agency Standard and Poor assigned an A rating to the Association. This is the highest rating assigned currently to P&I clubs in the International Group.

Closed policy years and Contingency Account

Over the year there was a minor deterioration of some $4 million in the closed policy years' claims provisions, basically as a result of the increased dollar cost of non-dollar based claims, and this amount was transferred from the Contingency Account to the closed policy years' fund. The Swiss Re reinsurance contract full annual premium of $11 million was debited to the Contingency Account. The Account benefited in turn from a further recovery of $5 million under the Swiss Re contract in respect of stop loss cover for claims in the 2002 and prior policy years.

The Contingency Account funded the closure of the 2000 policy year at a cost of some $84 million, but against this the Contingency Account received investment income totalling $98 million during the year. As at 20th February, 2004 the Contingency Account stood at $361 million.

Development of open policy years

2000 policy year
The 2000 policy year was closed in May, 2003 and the Members were advised by circular. No supplementary premium was levied by the Association; this was in line with the original estimate of no supplementary premium for the year.

On closure, as noted in Appendix 3 to the Directors' Report, sums of $2.123 million and $4,000 were transferred to the 2000 policy year fund from the United States Oil Pollution Additional Premium reserve and the Reinsurance Retention reserve respectively. Following these transfers the sums of $200,000 (to purchase the anticipated future investment income) and $86.317 million (to cover the anticipated deficit on the year) were transferred to the 2000 policy year account from the Contingency Account and the year was then closed.

2001 policy year
The development of this policy year showed some further improvement from twelve months previously, with the anticipated deficit standing at $75 million as at 20th February, 2004.

In April, 2004, subsequent to the end of the financial year under review, the Board decided to close the 2001 policy year without any supplementary premium being required. This was in line with the estimate given to Members prior to the beginning of the policy year.

2002 policy year
The marked increase in claims on this policy year, first noted in last year's Directors' Report and Financial Statements, has been confirmed. The main reason for this increase is an unusually large number of serious casualties affecting the marine insurance market in general. There are significant increases in the cost of collision, oil pollution, and fixed objects claims. In addition claims falling on the Pool - that is to say claims from all the P&I associations in the International Group - are running at a record high level. The current anticipated deficit on the year is $121 million, but given the strength of the Association's reserves no supplementary premium is estimated, and the Board expects to close this policy year in April, 2005.

2003 policy year
This policy year is only twelve months old, and at this early stage it is always difficult to predict accurately the outcome. However, there are strong indications that the year is not following the sharp upward trend in the cost of claims that was experienced in the 2002 policy year.

The estimate of supplementary premium for the year is nil.

2004 policy year
At the meeting in October, 2003 the Board decided to impose a general increase of 17.5 per cent of premium rating for the 2004 policy year. The supplementary premium estimate is nil, and in October, 2005 the Board will decide whether any mutual premium discount is appropriate.

Catastrophe reserve

This reserve remains available to offset the cost of the Association's share of overspill Pool claims, i.e. that part of the claim on an International Group club which exceeds the limit of the Group's excess of loss reinsurance contract arrangements. It has for some time been the policy of the Board to purchase additional overspill reinsurance cover, and to debit the cost of this cover to the Catastrophe reserve. For the 2003 policy year the Board authorised purchase of reinsurance cover for approximately 85 per cent of this Association's share of an overspill pool claim of up to $1 billion, for a cost of some $4.5 million. The Catastrophe reserve provides further support for this Association's share of an overspill claim of approximately $300 million, though the extent to which these protections are used to minimise or avoid the need for an overspill call on the membership would be a decision for the Directors to take in the light of all the circumstances of a potential claim.

The overspill cover arrangements for 2004 are detailed below under 'Pool and reinsurance arrangements'.

United States Oil Pollution Additional Premium reserve

This reserve was established in May 1994, to enable surplus funds arising in the years when the United States trading tanker oil pollution surcharges exceeded the cost of the excess reinsurance and Pool contributions to be used to subsidise policy years where such costs exceed the voyage surcharges. In April, 2003, on closure of the 2000 policy year, some $2.123 million was transferred from the reserve to the 2000 policy year fund because Pool contributions on that year had exceeded the funds developed by the voyage surcharges on that year. As at 20th February, 2004 the reserve stood at $45 million.

Reinsurance retention reserve

This reserve was created by the Directors in April, 1998 on closure of the 1995 policy year. The 1995 policy year was the first year of the International Group's reinsurance policy of deliberately retaining and co-insuring a percentage vertical slice portion of the first layer of the International Group's reinsurance contract.

In April, 2003, on closure of the 2000 policy year, the sum of $4,000 was transferred from the reserve to the 2000 policy year prior to closure of that year. This was to cover claims arising on that year in respect of this Association's share of the 10 per cent vertical co-insurance by the Group for that policy year.

As at 20th February, 2004 the Reinsurance Retention reserve stood at $7.75 million, and it remains available to fund this Association's share of any pooling claims falling on the co-insurance of the International Group's reinsurance contract, irrespective of the policy year concerned.

The investment year

The global economic expansion gained considerable momentum during the year as the pace of growth accelerated in the United States. Stronger consumer, business and government spending in the United States, the result of a return of consumer confidence, provided a much needed boost to many Asian economies. The main beneficiaries within Asia continued to be Japan and China whose current account surpluses with the United States rose significantly. European economies also benefited from the economic improvement but to a lesser extent. The low level of consumer confidence, a product of high unemployment, in the major economies of Germany, France and Italy negatively affected domestic demand. The increase in the trade and budget deficits in the United States and the absence of remedial measures to reduce them took their toll on the value of the US dollar, which fell sharply against the euro and sterling. The Bank of Japan at the request of the Japanese government continued to intervene in the currency markets to slow the progress of the yen in order to maintain the country's competitive position. The majority of central banks maintained interest rates at historically low levels and in the case of the United States; the Federal Reserve Board reduced its rate well below the rate of inflation. As a result, and despite the strength of the global economic recovery, bond yields rose very modestly.

Financial markets

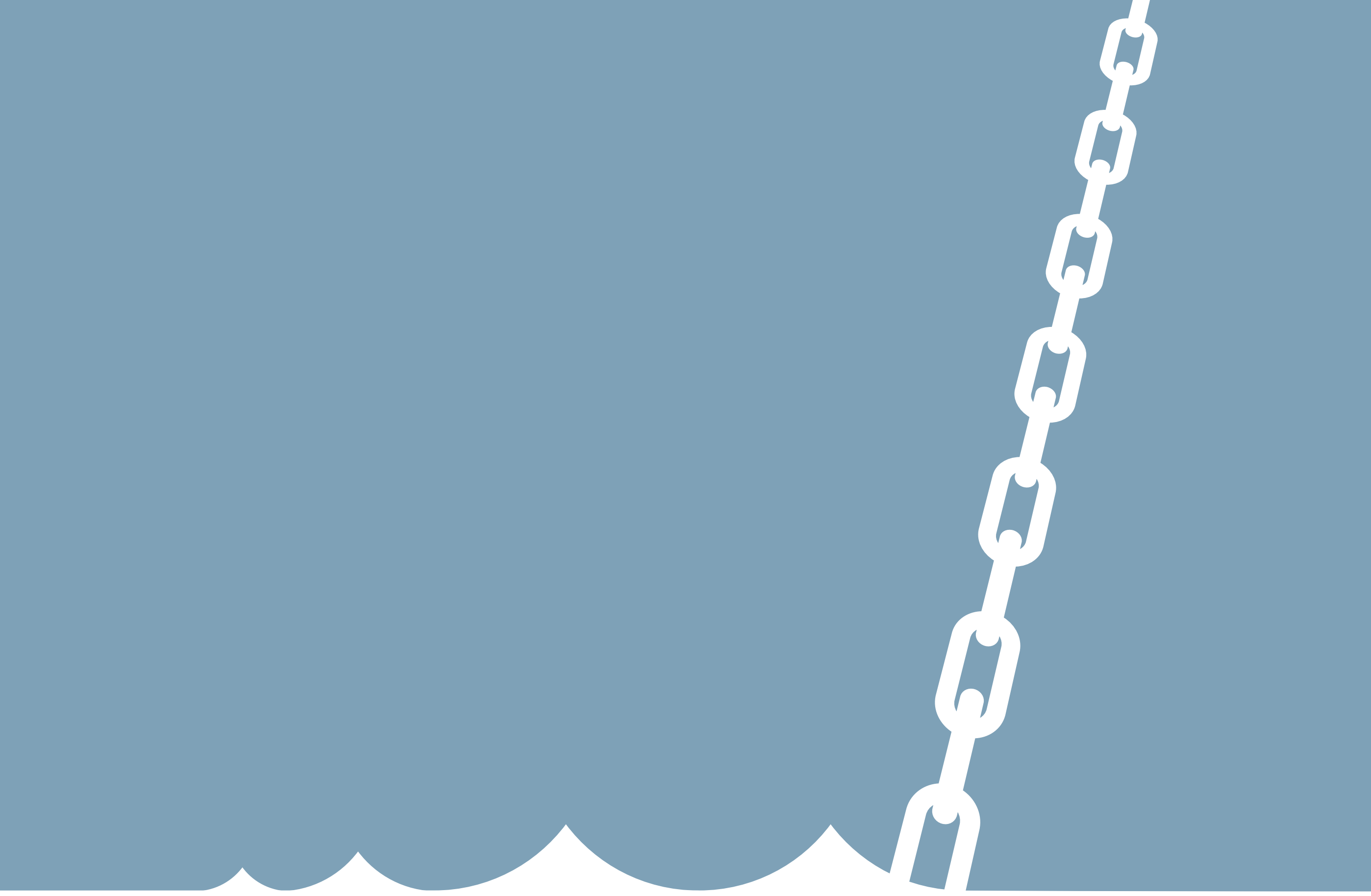
The modest rise in bond yields, which reduced the returns from the Association's fixed income portfolios, was more than offset by the considerable appreciation in equity valuations. Global equity markets began to regain their poise mid way through March 2003, although there had been a notable improvement in earnings during the previous six months. Cost reduction programmes initiated in 2001 and improved productivity produced a strong surge in corporate earnings. Whilst this improvement had been largely ignored during 2002, when the Iraq crisis weighed heavily on sentiment, the relief that accompanied the resolution of the Iraq conflict increased the appetite for risk. The appetite for risk increased as the improvement in corporate earnings came under closer scrutiny and led to a sharp appreciation in equity values. The rise in both the budget and current account deficits in the United States reduced the appeal of the US dollar and, as a result, inward investment. The decline in the currency was both modest and orderly until the United States Administration appeared to signal support for a weaker dollar. This resulted in a rise in the value of the euro, sterling and to a lesser extent the yen.

Investment return

The Association's policy of linking its liabilities and reserves with investments in similar currencies minimises the impact on its finances of currency fluctuations, but investment returns do fluctuate in response to periods of dollar strength and weakness. Similar to last year, the year under review was marked by higher returns generated by a weaker dollar.

Within the Investment Fund the modest rise in bond yields reduced in local currency terms the returns of the fixed income portfolios within the Fixed Income Fund, although those returns were boosted by the rise of the value of the euro, sterling and yen. Additionally, the decision to hold a lower than historic percentage of the Fixed Income Fund in dollars, during the final six months of the year, contributed strongly to the final return of 12 per cent. In order to introduce additional flexibility into the management of the Fixed Income Fund further modest investments were made in the absolute return fund of funds. The combination of a weaker dollar and a rise in equity values resulted a very strong return from the Equity Fund, which appreciated by 40.3 per cent. The Investment Fund, a combination of the Fixed Income and Equity Funds, produced a total return of 22.9 per cent.

The overall investment return achieved by the Association, after including the results of the Operating Funds was 17.8 per cent.



Pool and reinsurance arrangements

The Association, through its participation in the Group Pool, shares in the purchase of the International Group's general excess of loss reinsurance arrangements.

2003 policy year arrangements

The 2003 renewal was agreed with a 37 per cent increase over the cost of the contract for 2002. As was reported last year, although this cost was significant and unwelcome, the increase was considerably less than the initial indication. One consequence of the drive to obtain the best price possible was a decision to change the underwriting lead at Lloyd's.

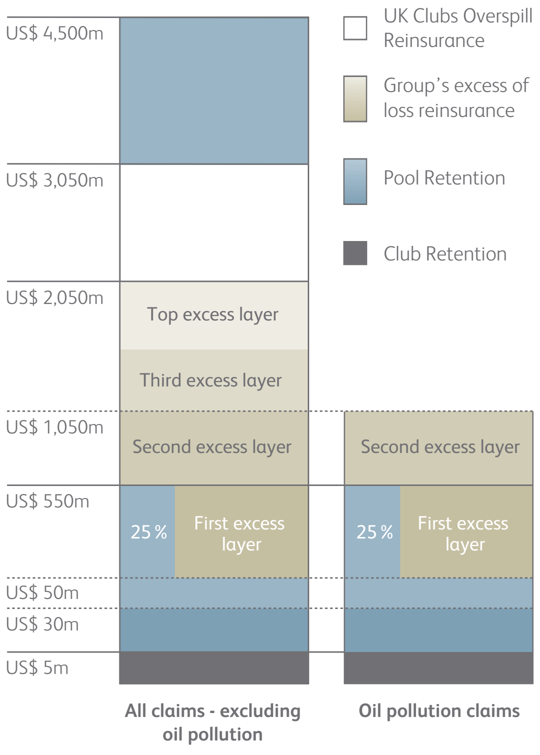
The terms and structure of the contract for 2003 remained substantially the same as the contract for 2001 and 2002. The main elements of the contract were as follows:

- The individual club retention remained at $5 million and above this claims were pooled.
- The conventional excess of loss reinsurance contract of the Pool operated excess of $30 million and covered 75 per cent of the risk up to $500 million (the first layer) and 100 per cent of the risk on the remaining three layers up to $2.03 billion.
- The reinstatement contract, which had been introduced for the 1998 policy year and which operated excess of $100 million for a 15 per cent interest up to $1 billion, was discontinued. Instead, the Group Pool extended the existing co-insurance on the first layer from 10 per cent to 25 per cent. The co-insurance was in turn protected by an aggregate stop loss policy. The remaining layers of the contract were unchanged and the oil pollution limit remained at $1 billion.

2004 policy year arrangements
For the 2004 policy year, the Group Pool's excess of loss reinsurance programme was renewed subject to the following principal modifications:

- The Pool retention has been increased from $30 million to $50 million. This increase reflected the long-standing intention of the International Group clubs to retain more risk within the working layer of the programme so that Group reinsurance is preserved for more serious or catastrophic losses. This increase in the Pool retention has effectively introduced a new third tier within the Pool. For 2004, the distribution of claims within this tier will reflect the tonnage entered in each club without an adjustment for the club whose member has the claim. During the 2004 policy year, the Group will review the basis of sharing claims within the entire Pool to determine whether or not changes to the formula for sharing Pool losses should be recommended.
- The conventional excess of loss reinsurance contract of the Pool has therefore been placed in excess of $50 million and covers, in the same way as it did for 2003, 75 per cent of the risk up to $500 million and 100 per cent of the risk on the remaining three layers up to $2.05 billion.
- In view of the increase in the Pool retention, there is no increase to the percentage of risk that the Group co-insures (25 per cent) within the first layer. This co-insurance has once again been protected by a policy that covers the Group for losses in excess of an aggregate. For 2004, the aggregate on a 100 per cent basis is $200 million, a reduction of $50 million on the aggregate which applied to the 2003 policy year.
- The individual club retention remains at $5 million for 2004.

UK Club Reinsurance Structure 2004



Overspill cover
Although the International Group reinsurance programme extends to a limit of $2.05 billion, the potential collective exposure of Group club members extends to approximately $4.5 billion. The claims in excess of the Group reinsurance programme fall back on the Pool as an overspill claim. For 2004, the Association has bought reinsurance to cover 100 per cent of its estimated share of the first $1 billion of such an overspill Pool claim. In addition to this special reinsurance, the Association also has the ability to call on its Catastrophe reserve and to make a recovery under the long-term reinsurance agreement with the Swiss Re. The extent to which these protections are used to minimise or avoid the need for an overspill call on the membership would be a decision for the Directors to take in the light of the circumstances of a potential claim.

Group Pool reinsurance strategy
As part of the process of refining the reinsurance strategy for the Group, the Group managers' reinsurance sub-committee has worked with a team of external actuarial and insurance consultants to review its reinsurance strategy. This has led to the production of a statement of the Group's reinsurance strategy, the aim of which is to ensure that the whole process of reinsurance purchase is as rigorous as possible. As part of the strategy the reinsurance sub-committee has continued to work on the formation of a Group captive insurer to be named Hydra. The establishment of Hydra will bring with it a number of advantages including the visible commitment by the International Group to retain more risk and an increase in security as between the clubs. It is expected that Hydra will be launched during 2004 and will apply to risk retained by the Group Pool during 2004. In practice this means the risk retained on the first layer of the reinsurance contract and within the new Pool third tier.

SUBSTANTIAL NUMBERS OF ALL THE MAJOR TYPES OF SHIP ARE ENTERED WITH THE UK CLUB...

...THIS DIVERSITY CREATES A BALANCED PORTFOLIO OF RISKS AND A BREADTH OF EXPERIENCE AND EXPERTISE AMONG ITS STAFF

Passenger cover

At their meeting in July, 2003, the Directors considered whether a limit should be imposed on the Association's cover in respect of passenger ships. This question had risen for deliberation by the clubs in the International Group as a result of the steady increase in size of passenger carrying ships and the proposed increase in the limits of the shipowners' liabilities to passengers under the terms of the Protocol to the Athens Convention. After giving careful consideration to the arguments for and against a passenger ship related limit, the Board came to the conclusion that the International Group should not try to single out any individual risk for a separate limit, whether for passenger ships or any other type of ship. The value of the International Group system was in providing as much cover as possible for the needs of all types of owner and ship and the Board considered that attempts to reduce the clubs' exposure in respect of individual risks would ultimately be detrimental to the system. The Board did however encourage the Managers to work in conjunction with the other Group clubs to explore further ways of reducing exposure to the risk of a catastrophic incident whether in relation to a passenger ship or any other occurrence. The Board subsequently learned that a majority of other clubs was also not in favour of imposing special limits in respect of passenger ships, the boards of the other clubs in the International Group having considered the question in the light of the same paper prepared by the Group managers. A copy of this paper was made available to all Members on the UK Club's website.

Service and Value for Money

The Directors attach great importance to the service provided by the Association to its Members, and through the year further progress has been made in implementing the Value for Money programme. Value for Money is an initiative aimed at improving the quality of service provided to Club Members and, at the same time, reducing the cost of external suppliers of claims expertise. Following the development of the programme in 2002 and its roll out within the Managers' organisation and to UK and US-based law firms, steps were taken to extend the programme into the next major category of external supplier - Correspondents. A series of workshops was held in Europe and the Americas to which representatives from the major correspondency firms were invited. The workshops were very well attended and received and should, it is hoped, be successful in helping to achieve the overall aims.

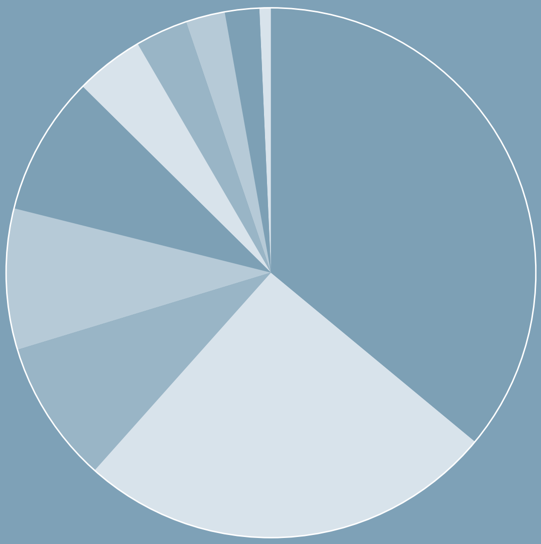
Further follow-up work has taken place internally in training the Managers' claims staff around the world and with law firms. Meetings took place with the major London law firms during the summer of 2003 to discuss their implementation of the initiatives and what work they needed to speed this up.

Looking ahead the programme will next be extended to marine consultants and work will continue to monitor and develop implementation within the Managers' organisation and those of external suppliers.

UK Club Owned Entries by Trade Type (% of total gt)

Figures run clockwise in descending order

Tankers	36.0 %
Bulk Carriers	25.6 %
Gas Carriers	8.6 %
Container	8.7 %
Passenger	8.5 %
Car Carriers	4.2 %
RoRo	3.2 %
General Cargo	2.1 %
Other	2.4 %
Reefer	0.7 %



War risks & terrorism cover

The Directors, at their meeting in January, 2004, decided that the Association should again provide the special war risks P&I cover which has been made available to Members in recent years. The terms of the cover which is provided for the 2004 policy year by the Directors' Resolution passed at that meeting, are the same as for the 2003 policy year with the exception that a special limit on the cover for passenger ships providing accommodation for the Olympic Games in Athens in August 2004 was introduced. As in 2003, the terms of the United States Terrorism Risk Insurance Act 2002 mean that the Act will apply to part of the cover given under this special war risks P&I Resolution, and in the event of claims being paid under this cover resulting from a United States act of terrorism as defined in that Act, the Association may be able to recover 90 per cent of the loss from the United States Government. The cover is again limited to a maximum $400 million in excess of the proper value of the ship, and Members are required to maintain war risk P&I insurance cover in the market up to a minimum of the ship's proper value.

As in the 2003 policy year, the terms of this cover for 2004 again contain exclusion in respect of chemical, bio-chemical and electro magnetic weapons and computer viruses when used as a means for inflicting harm. This exclusion has become almost universal in the marine war risks insurance market, although different wordings for the exclusion clause are used.

The Directors considered at their meeting in January, 2004, whether the Association should provide some cover, if only on a limited basis, to Members in respect of P&I liabilities which are excluded from owners' war risks P&I policies by this type of clause ("bio-chem." claims). The Board decided that, if possible, some cover should be provided to Members particularly if other clubs in the International Group were willing to pool the risks. After further consultation with the other clubs, it has been agreed that cover will be given for such "bio-chem" claims but only in respect of crew risks and legal costs incurred in connection with general P&I liabilities. The limit on this cover is also set at $20 million, each ship each event, and there are some other restrictions on the cover designed to protect the clubs in the International Group which have agreed to pool this risk, against the possibilities of aggregation of claims. The terms of this cover were set out in detail in the Directors' Supplementary War Risks P&I Resolution of 15th March, 2004, which was circulated to all Members. The Board will be considering in due course whether further improvements to this cover can be provided at an acceptable risk to the Association.

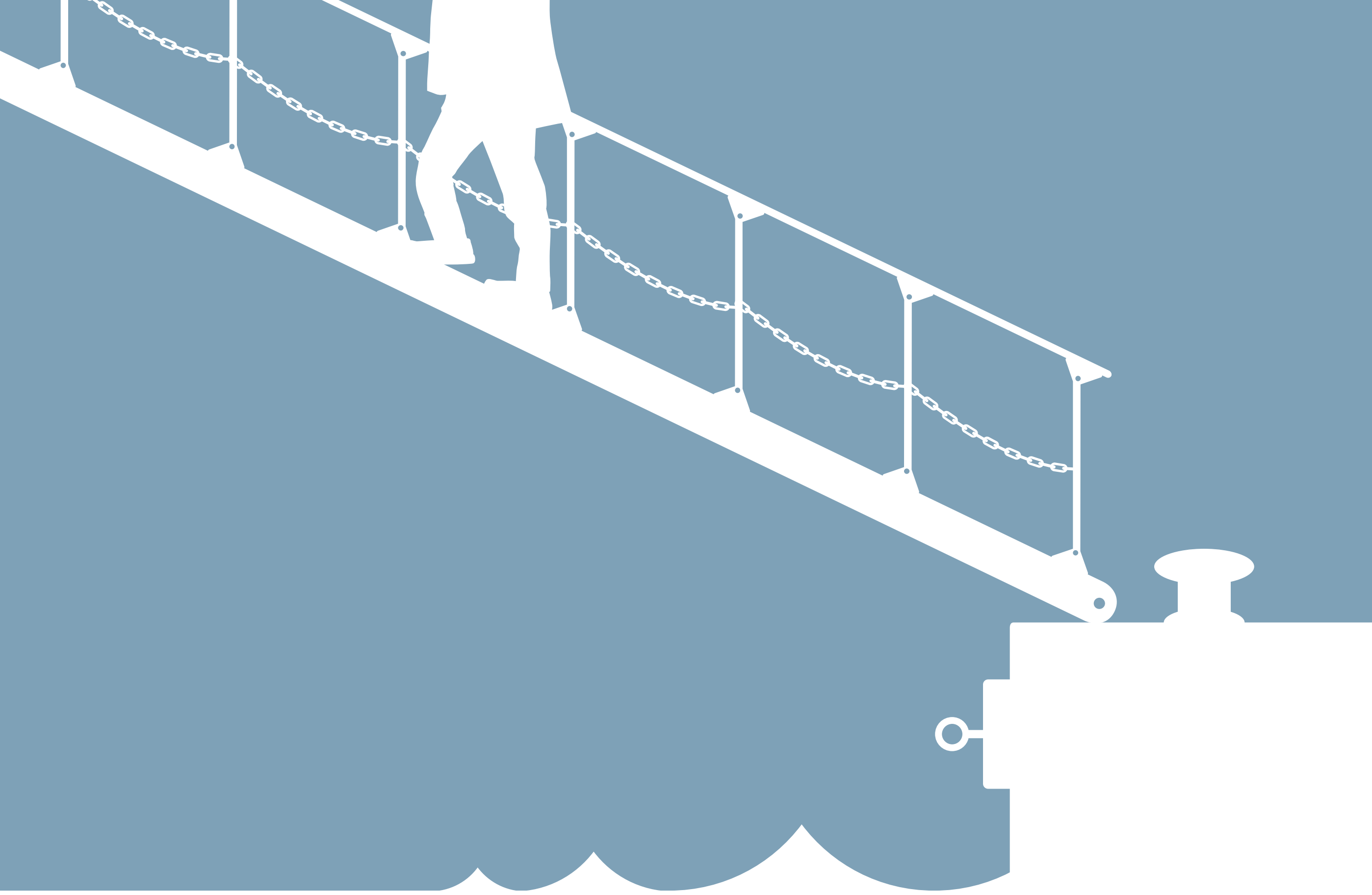
Regulatory matters

In addition to its statutory regulation in Bermuda, the Association and its branch offices are also subject to regulation in a number of other jurisdictions, including in the United Kingdom by the Financial Services Authority (FSA). During the course of the year the Directors received a series of reports from the Managers regarding the steps being taken to ensure that the arrangements for the direction and management of the Association are in full compliance with the regulatory requirements of the FSA. These arrangements include the formal adoption of a risk assessment and a process for reviewing that assessment and monitoring the systems and controls in place to mitigate the risks identified. In addition, the contractual arrangements between the Association and its Managers were reviewed during the course of the year as a result of which certain amendments were made to the management agreement. A review of the audit arrangements for the Association was conducted by the Audit Committee of the Board with a view to identifying any areas of risk in respect of which the existing audit arrangements might be inadequate.

The Audit Committee reported to the Directors that having reviewed the audit arrangements with particular reference to the areas of risk identified in the risk assessment, and taking into account the proposed work of the Association's external auditors, and the Managers' own internal audit arrangements, the Committee was satisfied that these arrangements were appropriate, subject to further clarification in one area. At their meeting in October 2003, the Directors confirmed the appointment of Mr. A. Metze to the Audit Committee on which he agreed to continue to serve following his retirement from the Board and the Board expressed its thanks to him, Mr. Biggi and Ms Siggins for their work on this Committee which has assumed increasing importance to the Association and the Board in the discharge of its responsibilities.

Maritime security

During the year, the Board received a number of reports from the Managers on maritime security, as shipowners began to be aware of the challenges posed by the adoption of the International Ship and Port Facility Security (ISPS) Code. All passenger ships, all cargo ships of 500 gross tons or more, and all mobile offshore drilling units must comply with the Code from 1st July, 2004. In addition, other amendments to SOLAS require changes to be made to ships to include ship security alert systems, better means of identification, and an on-board history of the ship in the form of a Continuous Synopsis Record issued by the Flag State.



The Managers reported to the Board on the process which it was expected companies would have to follow in order to be compliant, from on-board security assessments, through training and planning, approval and certification, to ongoing maintenance of security plans by regular review, drills and exercises. It was agreed that technical advice on security matters should be left to organisations with that expertise, of which there would be a growing number as specialised security companies were joined by class societies and compliance firms acquiring new security skills. However, the Association would facilitate access to such expertise and would provide more general information and advice.

The Association's website was used to set up links to providers of security services, and to provide access to key regulatory documents and security information, including advice on voluntary schemes such as the US Customs Trade Partnership against Terrorism. Copies of the excellent "Guidance on the ISPS Code" published by ICS (International Chamber of Shipping) were purchased and distributed to all Members. Later in the year, the Association also made available copies of ICS's "Model Ship Security Plan" which had been developed collaboratively with industry organisations to provide assistance to owners in their preparations.

The Directors were also kept advised of the progress of United States implementing regulations for the Maritime Transportation Security Act, which gave effect to the SOLAS amendments in the United States, but which treated the advisory provisions of part B of the International Ship and Port Security (ISPS) Code as being mandatory and would additionally require crewmember security plans and the use of guards.

Many other security related matters were considered by the Managers as participants in the work of the maritime security sub-committee of the Group, including, during a busy end to the policy year, the provision of guidance on a new United States Automated Manifest System in the face of unclear advice from regulators. Much advice was provided to Members individually and the Managers also worked with BIMCO on standard clauses to allocate security related costs in charter-parties.

While concerns have been expressed as to the administrative and cost burden of the new security regulations, it seems reasonable to hope that increased security may bring some reduction in security related P&I claims. Whether the new measures are effective to counter maritime terrorism, only time will tell.

Pollution

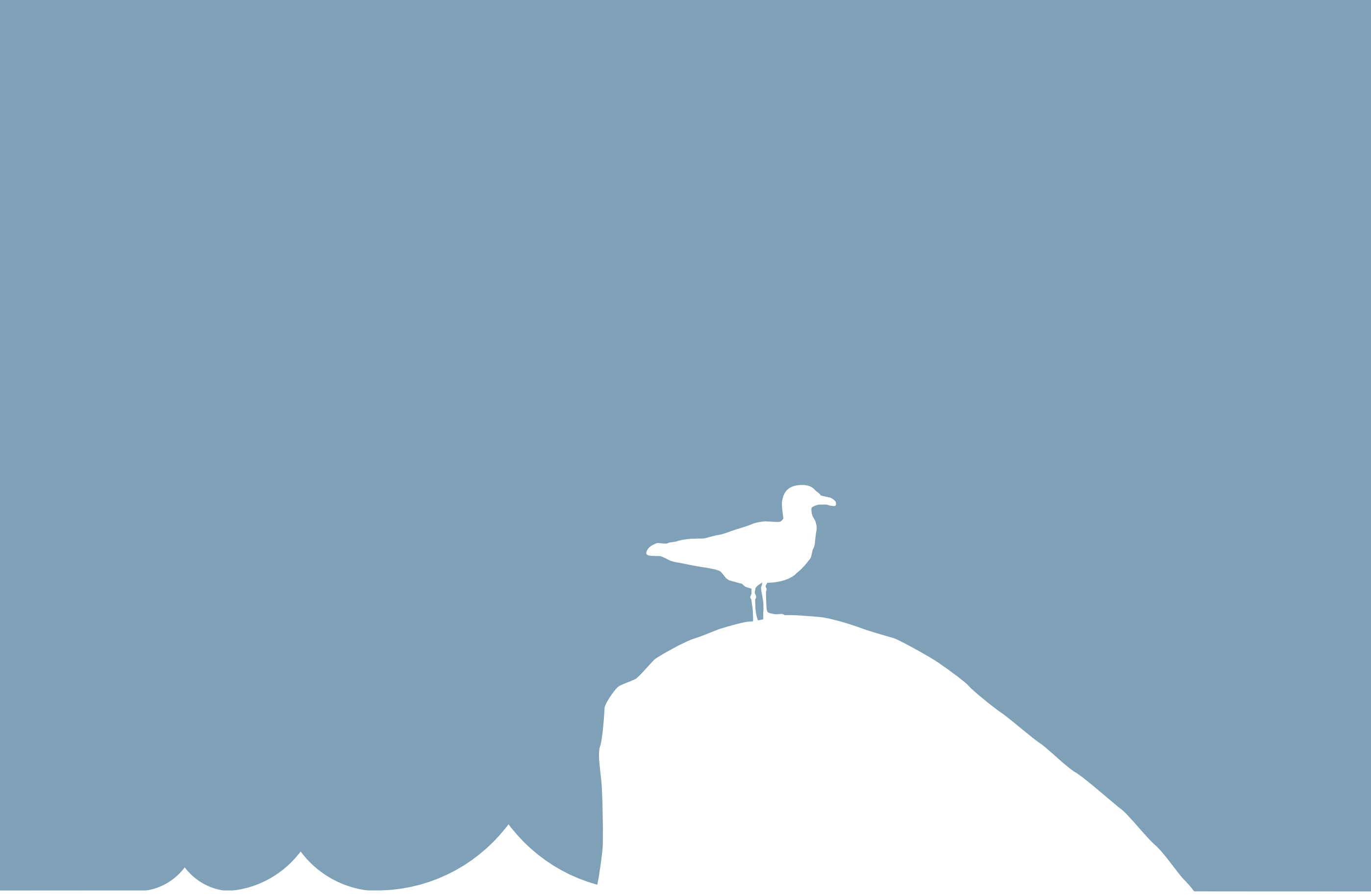
As in the previous year, much of the time spent by the Board on pollution matters during 2003 was occupied with reports on the work being undertaken to improve the international liability and compensation regime for pollution damage caused by tankers.

The issue of adequacy of compensation was addressed by a Diplomatic Conference held under the auspices of IMO in May, 2003, which adopted a Protocol establishing a Supplementary Fund. This optional third tier of compensation will provide, for pollution damage in those States which become parties to it, an amount of SDR 547 million (about $750 million) funded by cargo receivers, in addition to the amount of SDR 203 million already available under the 1992 CLC and Fund Conventions. The Protocol is expected to come into force by early 2005, perhaps even sooner.

Members may recall that, in 2002, the Board approved in principle a proposed agreement amongst shipowners (known as STOPIA - Small Tanker Owners' Pollution Indemnification Agreement), to increase voluntarily the minimum limit of liability for small ships under CLC in States which become parties to the Supplementary Fund. The object of the agreement is to maintain equitable sharing of the financial burden of oil spills between cargo receivers and shipowners.

A submission to the Diplomatic Conference, on behalf of the International Group, set out further details of the proposed agreement, which would raise the minimum limit from SDR 4.5 million to SDR 20 million and would affect tankers up to 29,548 gross tons, comprising about 75 percent by number of the world tanker fleet. The submission confirmed that the clubs would guarantee their members' contractual liabilities under STOPIA to the 1992 Fund, subject only to the defences available to shipowners and insurers under 1992 CLC, but reserved the right of shipowners and their clubs to withdraw the scheme if any essential element of the 1992 Conventions affecting tanker owners' liabilities were amended.

Notwithstanding the progress in dealing with issues of compensation, some governments continued to argue, in the Working Group of the IOPC Fund, that substantial changes to CLC were necessary in order to motivate behaviour (and so reduce substandard shipping), and to ensure that fair sharing of the financial burdens was built into the regime. In connection with the latter point, a study was commissioned by the IOPC Fund Secretariat into the cost of spills since 1978.



The Board agreed that these concerns must be addressed, and agreed in relation to the issue of sharing that the Managers should explore other voluntary proposals, if STOPIA was not seen as a sufficient measure to achieve equitable sharing. The Board also agreed that the International Group, in common with its industry partners, should carefully examine what more could be done to address sub-standard shipping (as should flag states, class societies, and many other parties). However, the Board has remained of the view that much of what is proposed in terms of revision of CLC runs the risk of damaging one of the world's most successful and effective international compensation mechanisms.

The Board received reports on draft EC legislation, including a draft Directive on criminal sanctions for ship-source pollution, which had included provision for uninsurable fines. A number of examples were also noted of a growing tendency to criminalise even accidental spills, including the treatment of the Master of the 'PRESTIGE', the treatment of the crew and salvor of the 'TASMAN SPIRIT', and the prospective treatment of ship's officers and corporate officers under a new French domestic law, which included provision for disproportionate fines based on the value of the ship's cargo.

At their October, 2003 meeting, the Directors received a report on new regulations issued by the Panama Canal Authority (ACP) which would have required shipowners to make contractual arrangements with spill managers and oil spill response organisations, pursuant to a Panama Shipboard Oil Pollution Emergency Plan (SOPEP). The requirements appeared to be unsuitable for the CLC regime to which Panama is a party and, after further discussion with industry groups, alternative and more appropriate arrangements were proposed by ACP.

The Board also received reports on work being undertaken to prepare for uniform implementation of the HNS Convention, and on the desirability of incorporating a specific defence in the conventions for damage caused by an act of terrorism.

As usual, many other matters relating to pollution legislation were also addressed during the year by the Managers as participants in the work of the pollution sub-committee of the International Group.

Rule and Bye-Law changes

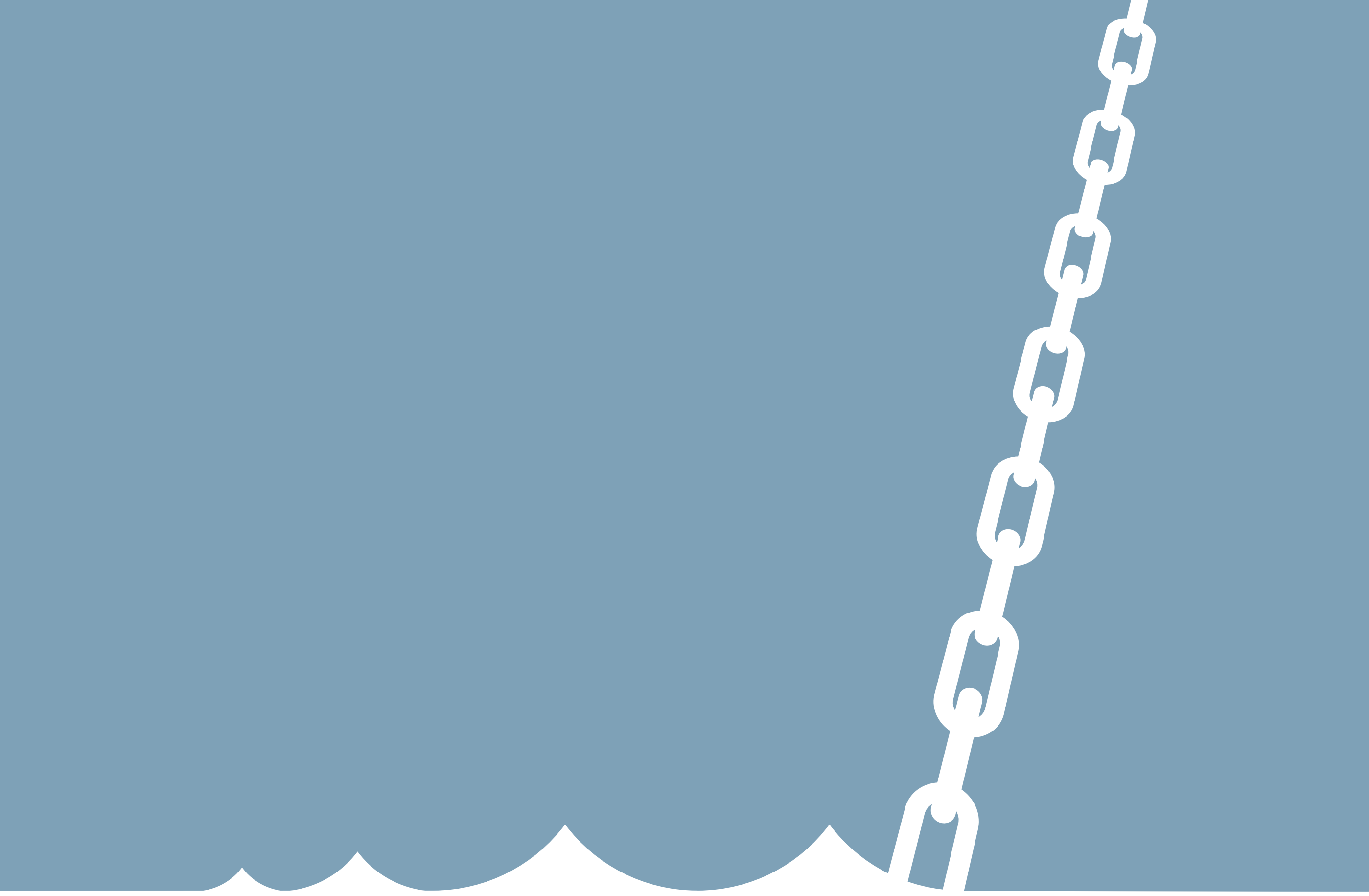
The Board considered draft changes to the Rules and Bye-Laws at its May, July, and October meetings. The changes were subsequently adopted by the membership at the Annual General Meeting of the Association in October, 2003, and at a Special General Meeting held in January, 2004.

Set against a background of the spread of SARS, cover for extra expenses such as quarantine and disinfection costs, incurred as a consequence of the outbreak of infectious disease onboard an entered ship, was expanded to respond where an outbreak is suspected but not confirmed.

Cover in respect of collision risks was clarified, to ensure that it can respond to a liability for remuneration paid under a SCOPIC clause in respect of the salvage of a ship with which the entered ship is in collision, insofar as such liability is excluded from coverage under the entered ship's hull and machinery policies.

Other changes agreed in October included a Rules amendment to reflect the practice of issuing fresh certificates of entry at the commencement of each policy year, and a change to the Bye-Laws to permit delegation of duties of Directors to an Audit Committee containing independent representatives other than Directors. An amendment was also made to the Association's Rule 5K to make clear that, from 1st July 2004, Members would be required to maintain the validity of statutory certificates issued in relation to the International Ship and Port Facility (ISPS) Code.

At the Special General Meeting held in January, 2004, the membership agreed an amendment to disapply the war risks exclusions in respect of liability incurred by the Association under a CLC or FMC certificate, to the extent that recovery cannot be made from any other insurer.

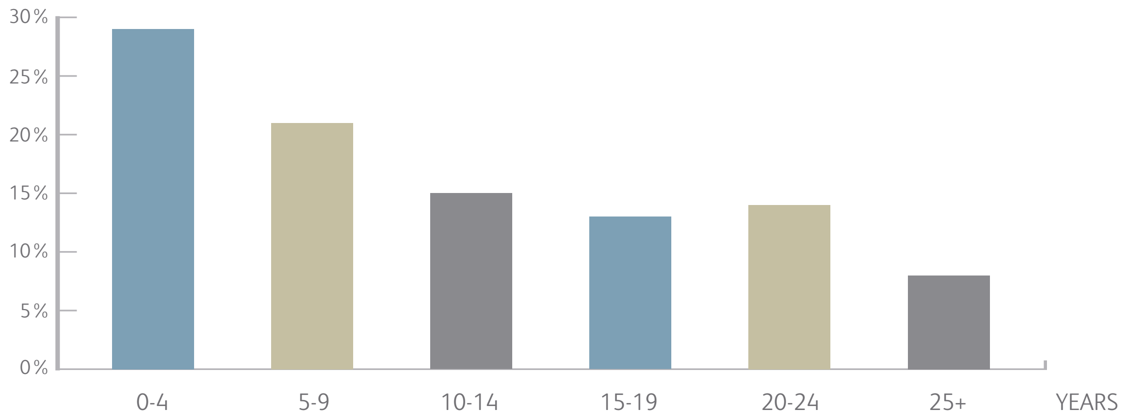


Athens Convention Protocol

Independently of its consideration of the general question of a possible limit on the Club's exposure in respect of passenger ships, the Board also received reports during the year on the status of the future entry into force of the Athens Convention Protocol. The International Group clubs had made it clear, during the discussion of this protocol at IMO during 2002, that they would be prepared to cover a significant increase in the per passenger limits of liability from SDR 175,000 to SDR 350,000 per passenger and furthermore to provide certification and accept direct action liability up to a level of SDR 100,000 per passenger if the scope of the liability regime under the new protocol was broadly acceptable. However, at the Diplomatic Conference in October, 2002, the delegates had adopted a Protocol which went substantially beyond these figures, increasing the limits of liability to SDR 400,000 per passenger and providing for certification and direct action against insurers up to SDR 250,000 per passenger. The Board received a report indicating that there was increasing pressure particularly amongst European member states to ratify the Protocol by the end of 2005. However, a technical issue had arisen in connection with the implementation of the Protocol since the terms on which certificates of insurance must be given include liability for passenger claims arising out of acts of terrorism even caused by biological, chemical or bio-chemical weapons which it is not possible for shipowners to insure with any insurance market in the world at anything approaching the aggregate the limits required by the Protocol. It was thus not possible for any insurer to provide certification in the terms required by the Protocol since the risks for which the insurers are obliged to accept liability under direct action include risks which cannot be covered. Pending resolution of this technical issue, the Board deferred making a decision on the scope of cover and certification which can be given in respect of passenger liabilities under the Protocol, and this subject will be reconsidered by the Board and all other clubs in the International Group in due course.

MORE THAN A QUARTER OF THE OWNED SHIPS ENTERED WITH THE UK CLUB ARE LESS THAN FIVE YEARS OLD

Age Profile of Owned Entries in UK P&I

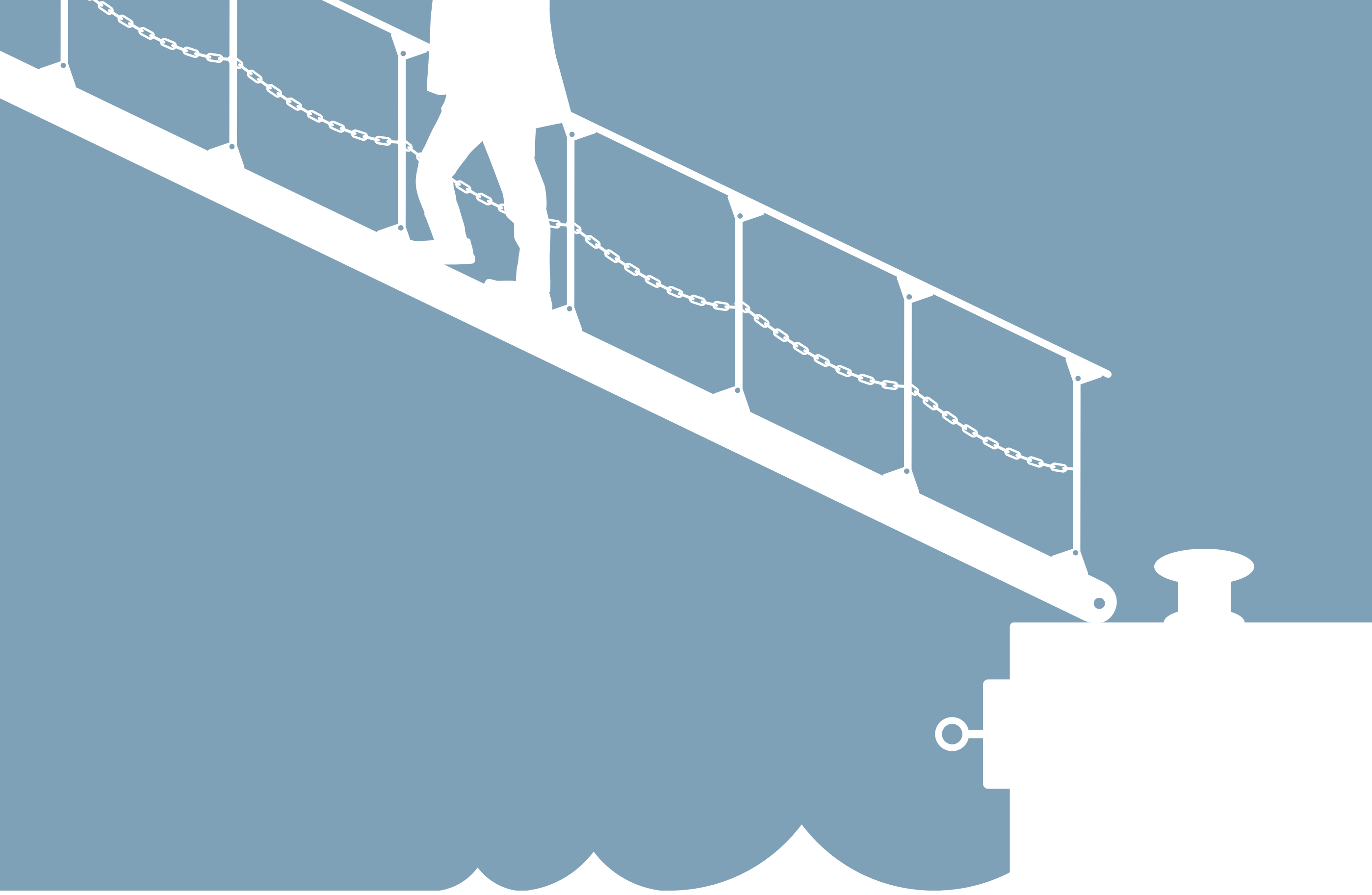


The International Group

In addition to receiving reports on the specific matters involving the International Group that are featured elsewhere in this review, the Directors received a general report at each meeting on Group issues under consideration by the Managers.

Early in the year, the Board considered a proposal from another association that the Group should seek to widen its scope of activity to become the main forum for co-ordinating the lobbying efforts of industry organisations in relation to laws and regulations that adversely affect shipowners. The Directors decided not to support the proposal, being generally of the view that the Group's role was best confined to its own area of expertise (i.e. matters relating to insurance of shipowners' liabilities) and that there was already close co-operation with other industry organisations.

Several reports were made to the Board regarding the application of the Pooling Agreement to discretionary claims, in the light of widespread disquiet regarding the pooling of three claims, paid by an association on a discretionary basis, for liabilities and losses relating to cargoes delivered without production of bills of lading. Having heard the Managers explain the basis on which the claims were poolable, the Board requested the Managers to consider what steps could be taken to reduce the likelihood of similar claims being submitted for pooling in future. The issue remains under consideration, but was addressed to some extent by the drafting of new Group guidelines regarding the process and procedures by which a club board should consider discretionary claims in cases where pooling may be relevant. The Group is also studying whether the Pooling Agreement should contain specific guidelines on the recoverability of discretionary claims for additional expenses arising from delay.



The Board also received a report on the obligations of the Association to pay pooling contributions for claims of a fleet to whom entry or renewal has been refused. The Managers reminded the Board that it was a pre-condition of pooling a claim that it be for a risk covered by the retaining club and that all clubs in the International Group use Rules with broadly similar exclusions of cover relating to breaches of classification or statutory requirements, willful misconduct, unseaworthiness known to the assured, and unsafe or imprudent voyages. However, the Managers confirmed that updated advice was being sought for the International Group on duties and rights of disclosure of survey information amongst clubs and on the implications of this for clubs' duties to underwrite prudently.

The Directors also received a report on modernisation of the enforcement regulations for EU competition law due to take effect from May, 2004.

Many other subjects were actively considered by Group sub-committees during the policy year and were listed in the Managers' annual summary of Group issues for the Directors at their January, 2004 meeting.

Membership quality

It remains a matter of great importance to Members that those with whom they share the cost of claims do observe appropriate standards, both in the operation and maintenance of their ships, and in their business dealings with the Association. The quality of the Association's membership therefore remains a key element in its strategy, being reflected in a selective underwriting policy; in the ship inspection, condition survey, and loss prevention programmes; and in appropriate Rules relating to surveys, statutory requirements and classification. Together, these measures seek to address the cost of liability claims by ensuring a high quality of membership with a shared commitment to the safe operation of ships and the need to underwrite fairly.

For similar reasons, it is a matter of some importance that Members should have confidence in the standards observed by shipowners entered in other associations, whose claims may be shared through the International Group Pool. The Board received a report from the Managers on this aspect, at its meeting in January, 2004, and encouraged the Managers to explore new ideas to ensure that this aim could be met.

At the October 2003 meeting, the Board received reports regarding several Members whose commitment to quality had been questioned, and the Managers outlined steps that had been taken to meet with those concerned and to ensure that problems were addressed adequately.

530 ENTERED SHIPS WERE INSPECTED IN 2003 OF WHICH ONLY 2% RECEIVED ADVERSE REPORTS

54% OF THE SHIPS VISITED IN 2003 WERE GIVEN A HIGH RATING

Ship Visits

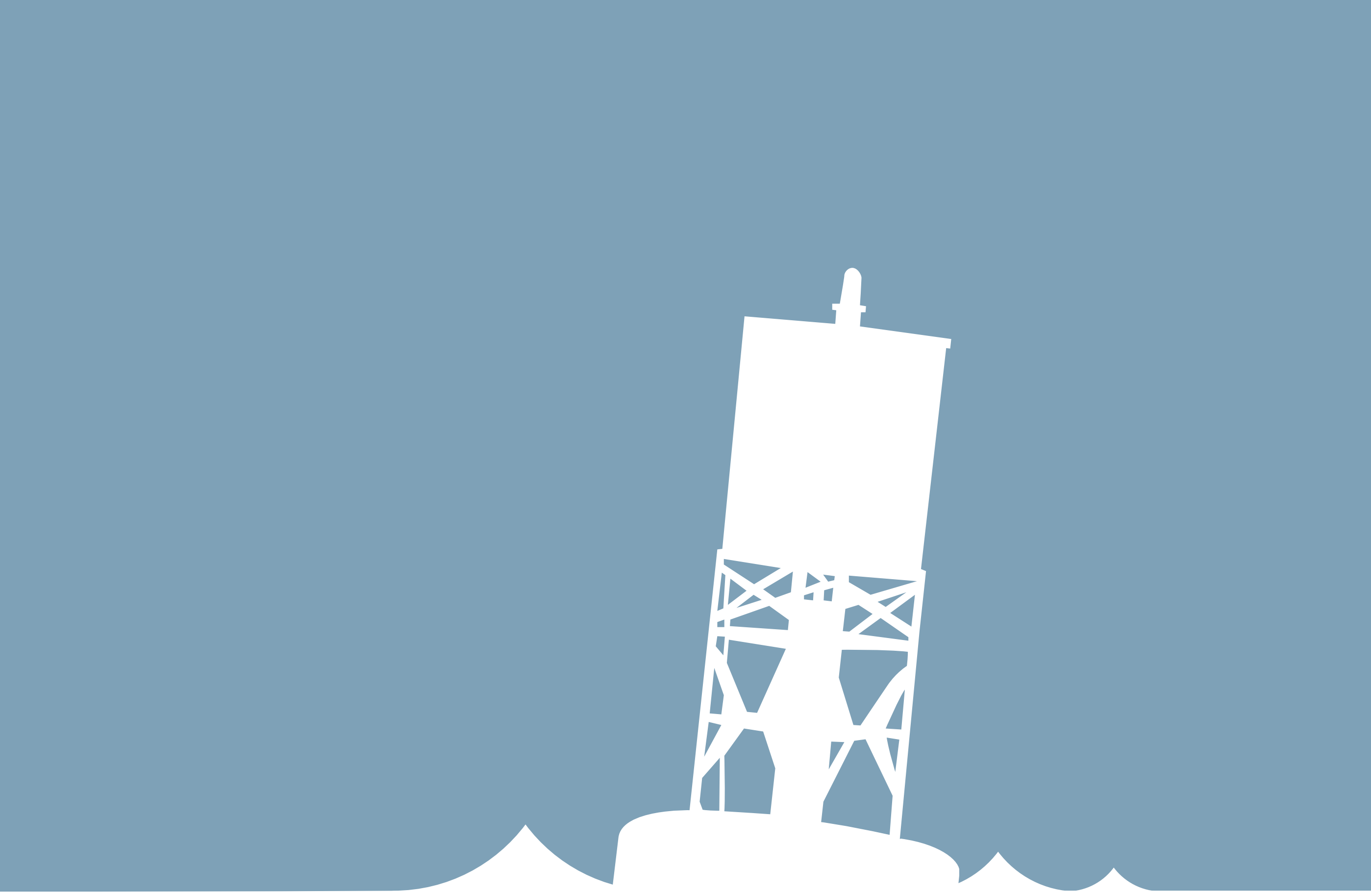
The Association continued to operate its ship inspection programme in 2003, manned by a permanent team of master mariners from the Managers' staff. Their responsibility is to visit entered ships in order to assess the standard of operation and to encourage improvements where necessary. Ships may be chosen at random, or targeted to maintain a representative sample of ship types compared with the profile of the Club as a whole. Such ship visits provide an opportunity to offer practical advice regarding best practice in managing risks and preventing losses and, as such, are often welcomed by those on board. Reports on the programme were made to the Directors at their meetings in July 2003 and January 2004.

Inspections took place during the 2003 policy year in Sweden, Finland, France, Netherlands, Germany, Belgium, Italy, Turkey, Greece, Azerbaijan, Ukraine, United Arab Emirates, India, Japan, South Korea, Singapore, China, Brazil, USA and Puerto Rico. Some 530 ships were visited, bringing to 7,213 the total number visited since the inspection scheme began in 1990. Only 2 per cent of those inspected (12 ships) received adverse reports, requiring them to be formally surveyed under the Club's Rule 5Q. A further 44 per cent (233 ships) attracted some recommendations for improvements, mostly in relation to service and maintenance issues, or in relation to safety standards.

Examples of shortcomings attracting recommendations for improvement included (in descending order of frequency): failure to review pilotage navigational procedures or to record position fixing under pilotage; failure to review crane maintenance and certification; failure to review bridge navigational procedures; failure to correct charts; failure to review crew safe working procedures; unsatisfactory engine room emergency escape facilities; fire hoses in poor condition; failure to maintain hatch covers or cleats; MARPOL infringements; oily bilges in engine rooms; inadequate training in use of ARPA/radar; and language barriers.

Visits were also made by representatives from the ship inspection department to some Members' shore offices, especially where there had been adverse survey findings, in order to determine the commitment of the Member to address problems and to avoid similar recurrences in future.

Since October 2002, Members have been able to access their ship visit records on-line and to use numerical performance indicators for each of six main areas of inspection (service and maintenance, safety, cargo worthiness, pollution, manning, and operational performance) to compare their inspection results with a Club average figure, updated on a daily basis.



Ship Condition Surveys

While ship visits are a means of monitoring the quality of tonnage already in the Club, another important factor to ensure a good quality of membership is the Association's policy of declining to admit new entries of ships that are more than 10 years old, except where a condition survey is carried out by independent surveyors.

The Managers reported to the Board on condition surveys carried out on 265 ships during the year, including 220 ships at the point of entry. Thirteen ships were declined entry as a result of a condition survey, and 83 ships were entered only on the condition that formal repair recommendations were complied with. The most common recommendations continue to be those relating to maintenance of hatch covers (including watertight integrity of hatch covers, repair of cargo hatch packing channels, repair of coaming compression bars, and replacement of quick acting cleats), and the implementation of safety management (including the updating of nautical publications). The remaining 45 condition surveys were triggered by a variety of factors, including information arising from ship visits, information arising from claims, other public information about the condition of ships, reactivation after lay-up, and targetting of vessels with a particular risk profile following the 'PRESTIGE' spill.

The Board also received reports during 2003 on the development of the Association's electronic reporting system for surveys, and on the role of Port State Control (PSC). The Association's proportion of International Group ships detained by PSC authorities was noted to be below its share of the Group tonnage.

In continuing to support these inspection and survey programmes, the Board underlines its commitment to ensuring that the quality of tonnage entered in the Association is carefully monitored and controlled, and that practical loss prevention measures are built on the knowledge thereby gained.

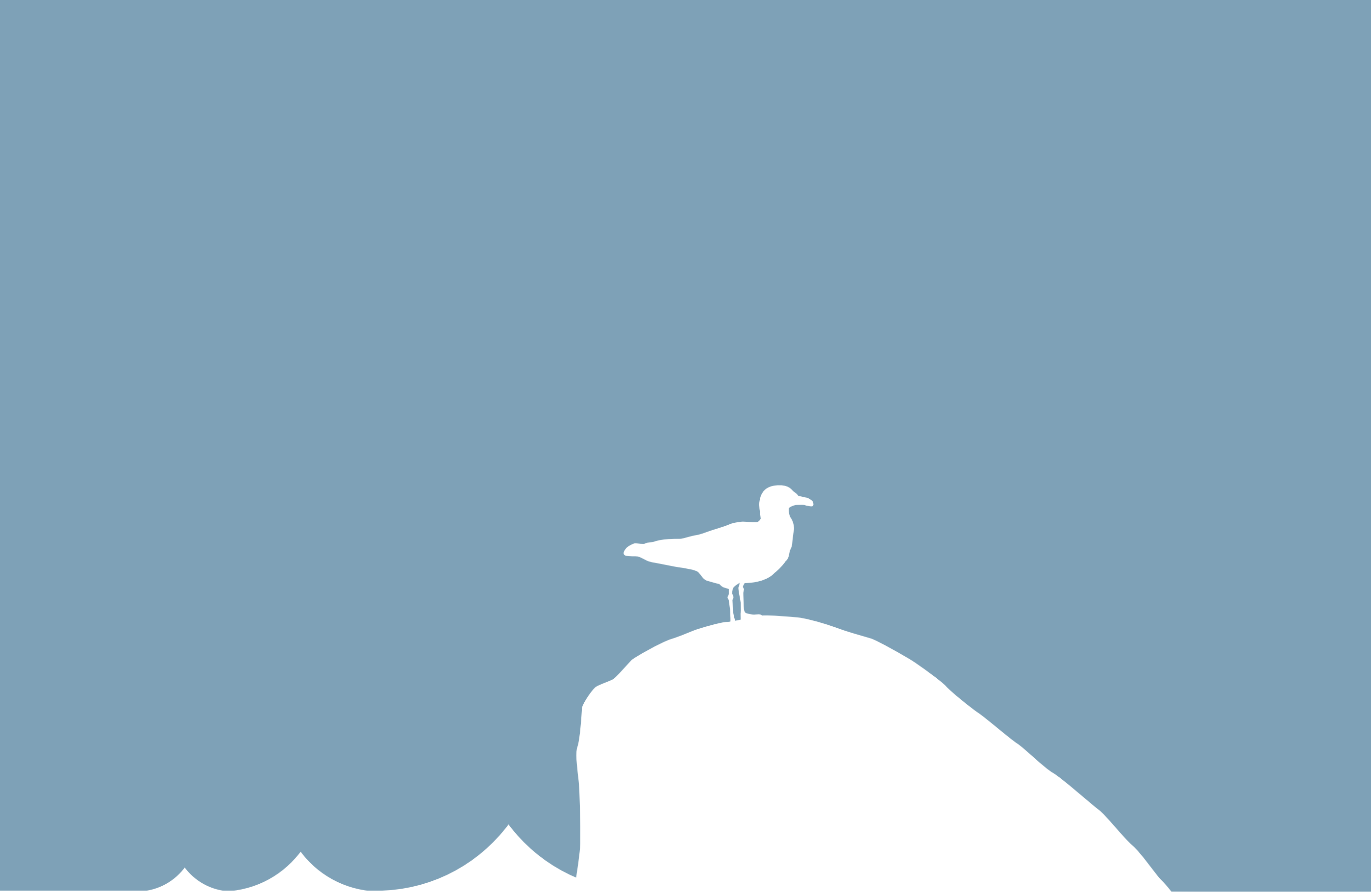
THE CLUB'S 'NO ROOM FOR ERROR' DVD HAS MET AN UNPRECEDENTED LEVEL OF INDUSTRY APPROVAL

Loss Prevention

During the year the Managers produced a DVD, 'No Room for Error', dealing with the perennial problem of human error which, according to the Association's Analysis of Major Claims, is the main contributory cause of almost 60 per cent of the Club's major claims. The DVD has met with an unprecedented level of industry approval. Its distribution to the Members was supplemented by a number of one day workshops in maritime centres around the world. In addition the Association made a presentation to the IMO STCW Sub-Committee and the DVD has been has been circulated by the International Chamber of Shipping to its members. The Managers are developing plans for further tackling the problem of the human element while continuing to hold presentations and workshops for Members.

Loss Prevention News was published with a human element supplement and articles on subjects such as how crew should handle United States criminal investigations and container security. The Carefully to Carry Committee produced a substantial issue of the Carefully to Carry newsletter, dealing mainly with the stowage and lashing of containers. In addition the Association continued to publish its weekly Loss Prevention Bulletins, Good Practice posters and Technical Bulletins.

The Association's website was redesigned during the year with a new Loss Prevention area a key feature.



Claims considered by the Directors

The Board received regular reports from the Managers of claims payments made during each quarter and full details of the ten largest settlements during the period under review. Reports were also given of developments in other significant cases and in particular those incidents which were likely to result in the Association incurring significant expenditure in the future. More than forty such claims were drawn to the attention of the Board during the year. Of particular note was the loss of the car carrier "TRICOLOR" following its collision with the "KARIBA" in the English Channel in December, 2002, the latter ship being entered in the Association. Fortunately all crew members from the "TRICOLOR" were rescued but a ship valued at $50 million and cars on board valued at $80 million were lost totally and wreck removal expenses, estimated in excess of $40 million, were due to be incurred in order to remove the obstruction from this busy waterway. As investigations were developed the Managers reported upon liability and limitation issues and the progress of legal proceedings.

Ship delayed due to unacceptable security terms
A general cargo ship entered with the Association had completed discharge at Chittagong of part of her cargo of steel coils and was proceeding outbound with a pilot on board when the Master observed another ship in the river, some one to one and half miles ahead. It appeared that this ship had just left its berth and it was anticipated that it too would proceed downstream. As a precaution, the ship's engines were ordered to dead slow and the pilot made contact with the ship ahead and established that it was operated by a local Bangladesh company, that she had cast off and that her anchor was clear. Some minutes later, however, it was noted that the Bangladeshi ship did not appear to be moving, that her propeller was not turning and she appeared to have her anchor down. By this time the Member's ship had closed the distance and despite consecutive orders of stop engines, half astern and let go the port anchor, momentum brought the two ships into contact, there being no room to pass at this point in the river. After the collision the Member's ship turned towards the adjacent quay, making contact with one of the pneumatic grain unloaders which collapsed on top of one of two conveyor belts which ran shoreside at right angles to the berth.

The damages sustained by the two ships were relatively minor. The shoreside damage was significant but expert advice suggested that repairs could be completed at a cost within the ship's limitation fund under Bangladesh law of approximately $500,000. However, the state-owned organisation which operated the installation sought security for its claim in the amount of $2.6 million. Whilst the level of the security request was clearly of concern, of greater concern was claimants' unwillingness to accept a letter of guarantee which acknowledged the owner's right to have the case adjudicated in court, or settled by agreement, and which included terms which guaranteed only owner's legal liability and preserved the right to plead a defence of limitation under Bangladesh law. Claimants were effectively seeking a letter of credit which they could draw down upon at their own discretion and with no restrictions.

It was eventually possible to negotiate terms under which the owners and the Association arranged and paid for necessary repairs to the quay and the unloading equipment. However, the achieving of this satisfactory conclusion resulted in the ship suffering a prolonged delay at Chittagong. The circumstances of the case were put before the Board and by more than the required three-fourths majority the Directors exercised their discretion under Rule 2, Section 24 in favour of the Member and authorised the payment of running costs during the period of the ship's delay. In so doing, they recognised that rejection of the demand for security in an unacceptable form had finally lead to a satisfactory outcome.

Unfortunately this did not bring an end to the problems on this voyage. The balance of the cargo on board the ship, consisting of hot rolled steel coils, had been delayed by more than three months and, unsurprisingly, when the ship eventually arrived in Batangas the consignees put forward a claim for economic damages caused by the delay in delivery. At $2.1 million the claim appeared to be considerably overstated but, notwithstanding, the Association made arrangements for the issuance of a local insurance company bond as provided for under Philippine law. This was rejected by the claimants who indicated that they were only willing to accept security in the form of a cash deposit. Through their manipulation of the timing of the court's consideration of the application to lift the arrest of the ship, they were able to engineer postponements and in so doing sought to pressure the shipowners into agreeing a settlement of the claim at a highly inflated level unsupported by evidence. Eventually, after a delay of more than 30 days, the court agreed that the insurance bond was good security and lifted the arrest.

Consistent with their decision in relation to the delay experienced in Chittagong, the Directors, in exercising their discretion under Rule 2, Section 24, decided that the owners should recover the ship's running costs during the second period of delay on this voyage, this time at Batangas following the action and tactics adopted by the cargo consignees which, if conceded, would have been detrimental to the interests of the Member and the Association.

Other matters considered by the Board

The Directors also received reports on a variety of other matters including the annual review of underwriting results, renewals and marketing; the Association's reinsurance of the London based predecessor Association; the progress of the Association's investment in the Managers' parent company, Thomas Miller Holdings Limited; the Tax and Regulatory Affairs sub committee; the Group Pool loss record; the annual review of the Association's budget for general expenses; overdue calls; the activities of SIGCO; the operations of the Association's subsidiary IPIR, and of IPIR's subsidiary, IPIER; and the work of the Strategy Working Group.

A.G. Kairis
Chairman

Date: 29th April, 2004

DIRECTORS

A.G. Kairis
N.J. Goulandris Ltd, London
Chairman and President

T. Biggi
V. Ships Group Ltd, Monaco
Deputy Chairman and Vice President

C.I. Caroussis
Chios Navigation Co. Ltd, London
Deputy Chairman and Vice President

K.G. Kleberg
Walleniusrederierna AB, Stockholm
Deputy Chairman and Vice President

A.H. Al-Roumi
Kuwait Oil Tanker Co. S.A.K., Kuwait

E. André
Suisse-Atlantique S.A., Renens/Lausanne

N.W.G. Baptist
Seatrans Shipping Services Ltd., London

G. Bottiglieri*
Bottiglieri di Navigazione SpA, Naples

M.L. Carthew
Chevron Texaco Shipping Company LLC, San Francisco

P. Decavèle*
Broström Tankers SAS, Paris

M.D. Garvey
Saltchuk Resources Inc., Seattle

O. Gast*
Hamburg Südamerikanische Dampfschiffahrts-Gesellschaft KG, Hamburg

I. J. Gaunt*
Carnival Corporation, London

G.B. Hadjieleftheriadis
Eletson Corporation, Piraeus

J.P Ioannidis
Olympic Shipping and Management S.A., Athens

J.M. Kopernicki
Shell International Trading and Shipping Co. Ltd., London

P. Kragic
Tankerska Plovidba d.d., Zadar

J. Kwok
American Eagle Tankers Inc. Ltd, Singapore

J.B. Lee
Korea Line Corporation, Seoul

A.M. Lemos
Ceres Hellenic Shipping Enterprises Ltd, Piraeus

P. Louis-Dreyfus
Louis Dreyfus Armateurs (SAS), Paris

* New Directors elected in October 2003

N.F. Lykiardopulo
Lykiardopulo & Co Ltd, London

Ma Zehua*
China Ocean Shipping (Group) Co, Beijing

R. A. Malone*
BP Shipping Ltd, Sunbury on Thames

A. Woolridge Marion
Hamilton, Bermuda

A.K. Olivier
Unicorn Shipping (Pty) Ltd, Durban

E.T. Richards
Hamilton, Bermuda

K. Saito
Petrobras Transporte S.A., Rio de Janeiro

M. Sato
NYK Line (Europe) Ltd, London

S.H. Seyedan*
National Iranian Tanker Co, Tehran

G.P. Sulser
Massoel Gestion S.A., Geneva

K. Suzuki*
Mitsui O.S.K. Lines Ltd, Tokyo

P.A. Vasilchenko
Far Eastern Shipping Company, Vladivostok

H. von Rantzau
DAL Deutsche Afrika-Linien GmbH & Co, Hamburg

The following Directors have left the Board since February 2003:

P.de Demandolx-Dedons
Sun Jiakang
R.G. Hughes
J. Kamkoff
M. Ikuta
A. Metze
Dato' Haji Mohd Ali bin Haji Yasin (Deceased)

APPENDICES TO THE DIRECTORS' REPORT

Reserves of the Association

The following Appendices are provided to show the movement of the reserves of the Association during the year, and the progress and the current best estimate of the outcome of the open policy years.

The appendices are prepared under the accounting policies used within the Financial Statements.

Summary of Reserves

Amounts in $000	Appendix	**2004**	2003
Open policy years			
2003	2	**(50,645)**	0
2002	2	**(122,918)**	(108,843)
2001	2	**(74,929)**	(85,786)
2000		**-**	(86,517)
Deficit on Open years		**(248,492)**	(281,146)
Closed policy years	3	**0**	0
Contingency Account	3	**360,699**	360,739
Catastrophe reserve	3	**53,908**	51,081
Reinsurance Retention reserve		**7,750**	6,570
US Oil Pollution AP reserve		**45,569**	41,814
Statutory reserve		**240**	240
Total surplus		**219,674**	179,298
Outstanding claims		**732,714**	717,195
		952,388	896,493

Development of Open Policy Years

Amounts in $000		2003	2002	2001
Calls and premiums		**301,980**	264,823	225,083
Less reinsurance premiums		**56,136**	48,524	36,710
	A	**245,844**	216,299	188,373
Incurred claims:				
Paid		**59,151**	138,704	152,111
Known outstanding estimates		**91,759**	121,441	55,205
Unreported estimates		**120,000**	55,000	33,000
		270,910	315,145	240,316
Operating expenses		**33,286**	29,739	27,483
	B	**304,196**	344,884	267,799
Investment income	C	**7,707**	5,667	4,497
Deficit (see Appendix 1)	A-B+C	**(50,645)**	(122,918)	(74,929)
Future investment income		**10,000**	2,000	100
Anticipated deficit		**(40,645)**	(120,918)	(74,829)

Notes:

(a) Incurred claims comprise claims paid (net of reinsurance recoveries), together with contributions to other P&I Associations under the Group's pooling arrangement, claims management costs and expenses and estimates for reported and unreported claims (including future claims management costs).

(b) Included in the policy year funds are balances of $2.151 million for 2001, $2.463 million for 2002 and a deficit of $3.681 million for 2003 arising from additional premiums charged less claims and reinsurance for the oil pollution risk pertaining to United States voyages by tankers. These balances are available to meet the Association's contribution to Pool claims arising from this risk.

(c) The approximate yield of a 10 per cent supplementary premium on the open policy years would be $24 million (2003), $22 million (2002), and $19 million (2001).

(d) Calls and premiums are shown gross; operating expenses include acquisition costs.

(e) The outstanding contributions to other P&I associations' claims under the Group's pooling arrangement, including unreported claims, are 2001 $10 million, 2002 $26 million and 2003 $39 million respectively.

Development of Closed Policy Years, Contingency Account and Catastrophe Reserve

Amounts in $000	Closed policy years	Contingency Account	Catastrophe reserve
Balance at 20th February 2003	241,753	360,739	51,081
Investment income	607	98,029	7,327
Reinsurance premiums		(11,400)	(4,500)
Transfers on closure:			
Deficit on 2000 policy year		(84,390)	
Balance of 2000 policy year	93,179		
Premium adjustments	72		
Increase in future claims management costs (open policy years)		(4,000)	
Reserve transfer		5	
Claims paid net of reinsurance recoveries etc	(77,586)		
Transferred from Contingency Account on review of estimated and unreported claims	3,730	(3,730)	
ERZ reinsurance recovery	(5,446)	5,446	
Balance at 20th February 2004	256,309	360,699	53,908
Outstanding claims	256,309		
Net surplus (see Appendix 1)	0	360,699	53,908

Notes:

(a) On closure of the 2000 policy year, the sum of $2.123 million was transferred from the United States Oil Pollution AP reserve and $4,000 was transferred from the Reinsurance Retention reserve. The US Oil Pollution AP reserve is intended to support the Association's Pool contribution in respect of tanker oil pollution claims in the United States. The Reinsurance Retention reserve was created in April, 1998 to fund the Association's pooling share of claims falling on the co-insurance (with other International Group Pool associations) layer of the International Group's reinsurance contract. Both reserves have subsequently been credited with their share of the Association's investment income.

(b) The outstanding claims on closed years include a provision for Group pooled claims of $75 million (2003 $63 million) including a forecast for unreported claims. The outstanding claims figure is shown net of recoveries from excess loss underwriters of $43 million (2003 $39 million) and from the Pool of $20 million (2003 $23 million).

(c) The Reserve transfer relates to claims on closed years falling on the Reinsurance Retention reserve and US Oil Pollution AP reserve.

(d) The transfer to the Contingency Account includes the reinsurance recovery on outstanding claims under the contract with the European Reinsurance Company of Zurich, Bermuda branch. This recovery has been allocated to the Closed policy years and the subsequent surplus has been transferred to the Contingency Account. The Contingency Account has also been charged with the full premium for the current year. The additional recovery relates to claims falling on 2002 and prior policy years.

Total Funds and Liabilities

Summary of funds available, estimated and forecast claims and discounted value of future claims at 20th February 2004.

Amounts in $000	Funds available	Estimated claims and forecast of unreported claims	Discounted liability
Total closed policy years	256,309	256,309	227,858
Open Policy Years			
2001	13,276	88,205	78,415
2002	53,523	176,441	157,385
2003	161,114	211,759	188,852
Reserves			
Reinsurance Retention reserve	7,750		
US Oil Pollution AP reserve	45,569		
Contingency Account	360,699		
Catastrophe reserve	53,908		
Statutory reserve	240		
Total funds	952,388	732,714	652,510

The estimated outstanding claims have not been discounted within the financial statements. This appendix shows the net present value of the future flow of premiums and claims when discounted at 4 per cent. The rate of discount is a conservative estimate of the longer term rate of investment return. This discounting demonstrates the potential effect of the investment income generated by the funds of the Association when applied to reducing the liabilities and thus shows the otherwise undisclosed potential within the Association's reserves.

Report of the Auditors

To the Members of the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited.

We have audited the consolidated financial statements of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited on pages 42 to 58. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of the Association as at 20th February 2004 and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in Bermuda.

Moore Stephens & Butterfield
Chartered Accountants
Crown House
Hamilton
Bermuda

29th April, 2004

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited
Incorporated under the laws of Bermuda.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the thirty fifth Annual General Meeting of the Members of the Association will be held at The Shilla Hotel, Seoul on Monday the twenty-fifth day of October, 2004 at 9.00 am for the following purposes:-

- To receive the Directors' Report and Financial Statements for the year ended 20th February 2004 and if they are approved, to adopt them.
- To elect Directors.
- To consider amendments to the Rules and Bye-Laws.
- To appoint auditors and authorise the Directors to fix their remuneration.
- To transact any other business of an Ordinary General Meeting.

By Order of the Board

D.W.R Hunter
Secretary

29th April, 2004

Note:
A Member entitled to attend and vote at the above Meeting is entitled to appoint a proxy to attend and vote instead of him. The instrument appointing a proxy shall be left with the Secretary at Thomas Miller (Bermuda) Ltd., Windsor Place, Queen Street, PO Box 665, Hamilton, HMCX, Bermuda not less than 12 hours before the holding of the meeting.

FINANCIAL STATEMENTS

Consolidated Statement of Operations
for the year ended 20th February 2004

Amounts in $000	Note		2004	2003
Income				
Calls and premiums	4		**304,843**	264,818
Reinsurance premiums	5		**(75,043)**	(85,569)
		A	**229,800**	179,249
Expenditure				
Incurred claims	6		**282,910**	225,034
Acquisition costs			**17,407**	15,792
Operating expenses	7		**15,907**	14,075
		B	**316,224**	254,901
Operating deficit		A-B	**(86,424)**	(75,652)
Investment income	8		**129,430**	45,728
Surplus/(Deficit) before taxation			**43,006**	(29,924)
Taxation			**(2,630)**	(1,500)
Surplus/(Deficit) after taxation			**40,376**	(31,424)
Reserves at beginning of year			**179,058**	210,482
Reserves at end of year	17		**219,434**	179,058

The notes form an integral part of these financial statements.

Consolidated Balance Sheet
at 20th February 2004

Amounts in $000	Note	**2004**	2003
Assets			
Investments	9	**800,544**	726,769
Cash balances	10	**84,743**	101,002
Amounts due from Members	13	**9,327**	10,826
Calls not yet due	13	**58,805**	50,678
Reinsurance recoveries on outstanding claims	15	**146,273**	115,231
Accrued interest		**5,203**	5,125
Sundry debtors	14	**11,867**	15,555
		1,116,762	1,025,186
Liabilities			
Outstanding claims (gross)	15	**878,987**	832,426
Creditors	16	**18,101**	13,462
		897,088	845,888
Reserves	17	**219,434**	179,058
Statutory reserve		**240**	240
		219,674	179,298
		1,116,762	1,025,186

The notes form an integral part of these financial statements.

Directors

A.G.Kairis

T.Biggi

S.J.B.James

Thomas Miller (Bermuda) Ltd
Managers

29th April 2004

Holding Company Balance Sheet
at 20th February 2004

Amounts in $000	Note	**2004**	2003
Assets			
Investments	3	**58,773**	58,700
Cash balances		**25,618**	15,189
Amounts due from Members	13	**9,327**	10,826
Calls not yet due	13	**58,805**	50,678
Reinsurance recoveries on outstanding claims		**805,716**	760,706
Accrued interest		**550**	549
Sundry debtors		**11,848**	15,535
		970,637	912,183
Liabilities			
Amounts due to subsidiary company		**47,039**	16,565
Outstanding claims (gross)	15	**878,987**	832,426
Creditors		**17,001**	12,882
		943,027	861,873
Reserves		**27,370**	50,070
Statutory reserve		**240**	240
		27,610	50,310
		970,637	912,183

The notes form an integral part of these financial statements.

Directors

A.G.Kairis

T.Biggi

S.J.B.James

Thomas Miller (Bermuda) Ltd
Managers

29th April, 2004

Consolidated Cash Flow Statement
for the year ended 20th February 2004

Amounts in $000		**2004**	2003
Operating Activities			
Calls and premiums received		**298,304**	254,710
Receipts from reinsurance recoveries		**16,334**	108,151
Interest and dividends received		**21,517**	24,279
	A	**336,155**	387,140
Claims paid		**243,421**	337,219
Acquisition costs		**17,407**	15,792
Operating expenses paid		**12,307**	10,736
Reinsurance premiums paid		**73,923**	64,460
Pool claims paid		**36,616**	18,164
Taxation paid		**2,800**	2,397
	B	**386,474**	448,768
Cashflow used by operating activities	A-B=C	**(50,319)**	(61,628)
Investing activities			
Purchase of investments		**(796,960)**	(611,089)
Sale of investments		**831,020**	709,180
Net cashflow from investing activities	D	**34,060**	98,091
Net (decrease)/ increase in cash and cash equivalents	C-D	**(16,259)**	36,463
Cash balances at beginning of period		**101,002**	64,539
Cash balances at end of period		**84,743**	101,002

Note 1 - Constitution

The Association is incorporated in Bermuda as a company limited by guarantee and having a statutory reserve but not share capital. The principal activities of the Association are the insurance and reinsurance of marine protecting and indemnity risks on behalf of the Members. The liability of the Members is limited to the calls and supplementary premiums set by the Directors and in the event of its liquidation, any net assets of the Association (including the Statutory Reserve) are to be returned equitably to those Members insured by it during its final underwriting year.

Note 2 - Accounting Policies

(a) Accounting disclosures

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and under the historical cost convention except that listed investments are carried at market value as disclosed in note 2(q). All transactions relate to continuing activities.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Subsequent results could differ from these estimates.

(b) Subsidiary company

These consolidated financial statements include the results of the wholly owned subsidiary company, International P&I Reinsurance Company Limited (IPIR), which is registered in the Isle of Man, and its wholly owned subsidiary International P&I Excess Reinsurance Company (Bermuda) Limited, which is registered in Bermuda. IPIR reinsures 90 per cent of the risks retained by the holding company. All intercompany transactions have been eliminated on consolidation.

(c) Annual accounting

The consolidated statement of operations is prepared on an annual accounting basis and includes all the premiums for policies incepting in the year and the cost of claims incurred and reinsurance for the current year and any adjustments relating to earlier years together with operating expenses and investment income. All revenue transactions appear in the statement of operations and are allocated to a policy year or to a reserve.

(d) Policy year accounting

The calls and premiums, reinsurance premiums payable, claims and reinsurance recoveries and outstanding claims are all allocated to the policy years to which they relate. Both the realised and unrealised investment income and exchange gains and losses are allocated proportionately to the average balance of funds on each open policy year and the other funds at quarterly intervals. Operating expenses are allocated to the current policy year.

(e) Closed policy years

The account of a policy year upon being formally closed is credited by transfer from the Contingency Account of the anticipated future investment income arising from the funds held for that year. Thereafter, the actual income from such funds is credited to the Contingency Account so setting-off the original amount debited.

For a closed policy year, it is the policy of the Association to retain a balance sufficient to meet the outstanding and unreported claims on that year. Upon subsequent review (of that balance) any anticipated surplus or shortfall is transferred to or from the Contingency Account.

(f) Contingency Account

The purposes of the Account are described in Rule 24(B)(ii). On closure of a policy year the anticipated surplus or deficit remaining on the year is transferred to or from the Account, bringing the year into balance. Thereafter, any subsequent increases or decreases in the anticipated level of outgoings on the policy year are absorbed by the Account. The Account is charged with the policy year's anticipated future investment income at the time of closure; in return, it receives the actual investment income and exchange differences as they accrue. It is charged with the cost of the multi year excess of loss reinsurance contract (see note 5). Any subsequent reinsurance recovery under the contract is transferred to the Account.

(g) Catastrophe reserve

The purpose of the reserve is described in Rule 24(B)(i). It is derived from calls specifically made on Members, together with its proportion of investment income and exchange differences, less transfers to the Contingency Account as resolved by the Board of Directors.

(h) US Oil Pollution Additional Premium reserve

This reserve is to support the Association's Pool contributions in respect of oil pollution claims in the United States emanating from tankers carrying persistent oil cargoes. The balance of premiums less claims and reinsurance premiums arising from these voyages is transferred between the policy year and the reserve on closure of the policy year.

(i) Reinsurance Retention reserve

This reserve is derived from savings in the International Group reinsurance contract premium arising from co-insuring (with the other International Group Pool associations) a part of the contract. The savings arising are transferred from a policy year on closure to the reserve and are available to meet any claims on the coinsured portion.

(j) Calls and premiums

Calls and premiums include gross calls and supplementary premiums, less return premiums and provisions for bad and doubtful debts. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any premium adjustments relating to prior accounting periods.

The Directors retain the power to levy supplementary premiums, or give discounts on mutual premiums on open policy years. There are no unearned premiums.

(k) Claims

The claims include all claims incurred during the year, whether paid, estimated or unreported together with claims management costs and expenses, estimated future claims management costs and adjustments for claims outstanding from previous years. The claims also include this Association's share of similar associations' claims under International Group of P&I Associations' pooling arrangements.

The estimates for known outstanding claims are based on the best estimates and judgement of the Managers of the likely final cost of individual cases based on current information. The individual estimates are reviewed regularly and include this Association's share of other associations' Pool claims.

The forecast of unreported claims is based on the estimated ultimate cost of claims arising out of events which have occurred before the end of the accounting period but have not been reported. These future claims are based on the Managers' best estimate of unreported claims on each policy year. The estimates are calculated by comparing the pattern of claims payments in the current policy years with earlier policy years, and then projecting the likely outcome of the more recent years.

The more recent the policy year, the more difficult it is to judge the eventual outcome. The forecast of unreported claims for the current year, which has run only twelve months, is therefore the subject of some uncertainty. Accordingly, the Managers have taken a conservative approach when setting the level of unreported claims, preferring to be cautious in the most recent year until a clearer pattern emerges in the second year, when the level of uncertainty diminishes and forecasts may be made with greater certainty.

(l) Reinsurance recoveries

The liabilities of the Association are reinsured above certain levels with similar associations under the International Group's Pooling Agreement and with market underwriters. The figures in the consolidated statement of operations relate to recoveries on claims incurred during the year. Outstanding claims in the balance sheet are shown gross and the reinsurance recoveries are shown as an asset.

(m) Reinsurance premiums

These include premiums payable to market underwriters charged to the consolidated statement of operations on an accruals basis. The premiums are shown net of any commutations.

The reinsurance contracts do not relieve the Association from its obligation to Members. The reinsurers are financially evaluated to minimise the exposure of the Association to losses caused by reinsurer insolvencies.

(n) Acquisition costs

These comprise brokerage, commission and the management costs directly attributable to the processing of proposals and the issuing of policies; none of these costs have been deferred.

(o) Operating expenses

These include management costs and general expenses. The management costs cover the cost of premium collection, reinsurance and investment management and include the cost of providing offices, staff and administration but exclude acquisition and claims management costs. The general expenses include the cost of Board meetings, travel, communications and other costs directly attributed to the insurance activities.

(p) Foreign currency

Revenue transactions in foreign currencies have been translated into US dollars at rates revised at monthly intervals. All exchange gains and losses whether realised or unrealised are included in the consolidated statement of operations. The differences arising on currency translation and the realised differences arising on the sale of currencies are included within exchange gains and losses within investment income.

Foreign currency assets and liabilities except the cost of investments are translated into US dollars at the rates of exchange ruling at the balance sheet date. The resulting difference is treated as an exchange gain or loss within investment income.

Forward currency contracts are entered into to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been revalued at year-end rates of exchange and the potential profit or loss included with investments. The profit or loss is included within exchange gains and losses and the outstanding amounts on unsettled closed contracts are shown within debtors or creditors.

(q) Investments

The interest receivable from the investments together with the profits and losses on sales of investments, the amortised discount on zero coupon bonds, the amortised cost of options and dividend receipts are included within investment income in the consolidated statement of operations. The unrealised gains and losses on the movement in the market value of the investments compared to the cost are included in unrealised gains and losses on investments within investment income.

Investments are stated at their market value at the balance sheet date. Investments purchased in foreign currencies are translated into US dollars on the date of purchase. The market values of foreign currency investments are translated at the rate of exchange ruling at the balance sheet date.

The loan made to the UK Club Private Trust Co Ltd is shown at cost.

The UCITs are Undertakings for Collective Investments of Transferable Securities and are used as an alternative to cash deposits, and those purchased in foreign currencies are translated into US dollars at the rate of exchange ruling at the date of purchase. They are not listed and are shown at market value.

(r) Taxation

The charge for UK taxation is shown in the consolidated statement of operations. The charge is based on a percentage of the investment income and both realised and unrealised investment gains less losses. It is not based on the underwriting income.

(s) Related Party Disclosures

The Association has no share capital and is controlled by the Members who are also the insureds. The subsequent insurance transactions are consequently deemed to be between related parties but these are the only transactions between the Association and the Members.

All bar two of the Directors (who are Bermuda residents) are representatives or agents of Member companies and other than the insurance and membership interests of the Directors' companies, the Directors have no financial interests in the Association.

No loans have been made to Directors and none are contemplated.

Note 3 - Holding Company

The results of the Association's subsidiary, International P&I Reinsurance Company Limited, are consolidated within the group financial statements. The subsidiary company is registered in the Isle of Man.

The following details are from the holding company balance sheet.

Amounts in $000		**2004**	2003
Investments			
Subsidiary company - International P&I Reinsurance Company Limited 200,000 authorised and issued ordinary $1 shares at $5 per share	A	**1,000**	1,000
Government bonds		**34,572**	40,239
Bonds		**583**	532
Total listed investments	B	**35,155**	40,771
UCITs	C	**7,529**	1,840
Loan	D	**15,089**	15,089
Cost $57,411 (2003: $57,927)	A+B+C+D	**58,773**	58,700

The loan was made on 27th October, 2000, to the UK Club Private Trust Co Ltd, which is wholly owned by the Association and established in Bermuda. Interest at 5 per cent per annum is receivable on the loan. The UK Club Private Trust Co Ltd has in turn made a convertible loan to Thomas Miller Holdings Ltd with interest at 5 per cent per annum, and this loan may be converted into equity shares after five years at the Trust's discretion. The loan is disclosed at cost.

Note 4 - Calls and Premiums (see note 2(j))

Amounts in $000		**2004**	2003
Mutual			
Mutual premium		**257,050**	226,911
Laid-up returns		**(2,112)**	(3,285)
Releases		**2,660**	1,673
Reinsurance		**91**	(81)
	A	**257,689**	225,218
Less			
Bad debts written off		**(611)**	(403)
Movement in provision for bad debts		**(1,105)**	152
	B	**(1,716)**	(251)
	A+B=C	**255,973**	224,967
Fixed Premium			
Time charter		**31,946**	24,745
Owned		**7,807**	6,864
Reinsurance		**666**	605
US Oil Pollution		**8,487**	7,656
		48,906	39,870
Laid up returns		**(36)**	(19)
	D	**48,870**	39,851
	C+D	**304,843**	264,818

Provision is made for all calls over twelve months old and for any subsequent calls where there are circumstances indicating that these debts may not be recoverable.

Note 5 - Reinsurance Premiums (see note 2(m))

Amounts in $000	2004	2003
Market underwriters and other P&I associations and Members	**53,634**	49,447
Multi-year arrangements	**11,400**	31,620
US Oil additional premiums	**10,009**	4,502
	75,043	85,569

The reinsurance premiums include the cost of the multi year reinsurance arrangements with the European Reinsurance Company of Zurich, Bermuda branch, a wholly owned subsidiary of the Swiss Re which provide cover of $300m for claims in excess of an aggregate retention in addition to a further $100m of cover which is available to meet an overspill claim. The Association has an option to terminate the contract at any time, in which event, a commutation payment will be made to the Association less any paid claims.

Note 6 - Incurred Claims (see note 2(k))

Amounts in $000		2004	2003
Gross claims paid:			
Members' claims		**246,008**	337,169
Group's pooling arrangements		**36,616**	18,164
	A	**282,624**	355,333
Less recoveries:			
Group's pooling arrangements		**7,866**	31,196
Market underwriters		**4,400**	62,719
Other P&I associations and Members		**2,967**	9,111
	B	**15,233**	103,026
Net claims paid	A-B=C	**267,391**	252,307
Movement in provision for outstanding claims:			
Provision carried forward		**878,987**	832,426
Provision brought forward		**832,426**	865,301
	D	**46,561**	(32,875)
Less: Movement in provision for reinsurance recoveries:			
Provision carried forward		**(146,273)**	(115,231)
Provision brought forward		**115,231**	120,833
	E	**(31,042)**	5,602
Net changes in claims provision	D+E=F	**15,519**	(27,273)
Net incurred claims	C+F	**282,910**	225,034

Note 7 - Operating Expenses (see note 2(o))

Amounts in $000	2004	2003
Management fee	9,561	8,479
Travel	2,054	1,722
Directors' fees	429	437
Printing and stationery	297	286
Communications	371	382
Promotions and seminars	210	231
Legal and financial	1,631	1,213
Strategy and planning	259	152
Auditors' fees	250	234
Japan branch	228	212
Ship inspection	397	380
Loss prevention	220	347
	15,907	14,075

The increase in operating expenses reflects the exacerbating effect of the sustained depreciation in the value of the US dollar, with operating costs largely denominated in sterling.

Note 8 - Investment Income (see note 2(q))

Amounts in $000	2004	2003
Bonds	16,464	18,005
Bank deposits	1,678	2,799
Dividends	3,453	2,652
Profit on sales of investments	58,499	2,830
	80,094	26,286
Unrealised gain on investments	47,782	18,331
Exchange gain	1,554	1,111
	129,430	45,728

Note 9 - Investments (see note 2(q))

Amounts in $000	**2004**	2003
Listed Investments		
Bonds	**583**	532
Government stocks	**400,037**	328,548
Corporate bonds	**-**	123,426
Equities	**291,025**	155,295
Unit trusts	**35,693**	39,374
Total listed investments	**727,338**	647,175
Cost $660,411 (2003: $625,066)		
Other Investments		
UCITs	**57,073**	64,319
Loan (see note 3)	**15,089**	15,089
Open forward currency contracts	**1,044**	186
Total investments	**800,544**	726,769

The listed investments are all quoted on major recognised international stock exchanges.

The UCITs are Undertakings for Collective Investments of Transferable Securities and are an alternative to short term cash deposits and are shown at market value.

The Association's investment policy requires that bonds held directly shall have a credit rating of A- or better.

The market value of the Association's investments in bonds and government stocks may be affected by changes in prevailing levels of interest rates. At the balance sheet date the investments in bonds and government stocks have effective yields of between 1 per cent and 5 per cent (2003: 1 per cent and 5 per cent). The UCITs have effective interest rates of between 1 per cent and 4 per cent (2003: 1 per cent and 4 per cent). The large spread of interest rates is due to the different currencies.

Open Forward Currency Contracts

This represents potential losses or gains on forward contracts, which have been entered into for the purpose of protecting the assets of the Association. These contracts were matched against currency and asset holdings in excess of the amount of the contracts. The contracts have been revalued at 20th February, 2004 using exchange rates prevailing at that date.

Amounts in $000	**2004**	2003
Forward sale of currencies	**(244,629)**	(43,382)
To produce	**245,673**	43,568
Potential gain	**1,044**	186

Note 10 - Cash Balances

Amounts in $000	2004	2003
Current and short term bank deposits	88,454	103,087
Overdrafts	(3,711)	(2,085)
	84,743	101,002

Short term bank overdrafts are to cover investment purchases.

Note 11 - Cash and Investment Maturity Summary

Amounts in $000	2004	2003
Cash and investments	885,287	827,771

	2004 Per Cent	2003 Per Cent
Cash, equities and interest bearing securities repayable within one year	58.10	58.43
Interest bearing securities repayable between one year and three years	10.04	10.27
Between three and seven years	30.16	29.48
Over seven years	1.70	1.82
	100.00	100.00

Note 12 - Cash and Investment Currency Exposure

	2004 Per Cent	2003 Per Cent
Swiss franc	0.07	0.06
Sterling	7.66	12.07
Japanese yen	1.37	1.85
Euro	8.53	12.40
US dollar	82.37	73.62
	100.00	100.00

Note 13 - Amounts Due From Members

Amounts in $000	**2004**	2003
Members' balances due	**13,345**	13,738
Less provision against balances which may not be wholly recoverable	**(4,018)**	(2,912)
	9,327	10,826

$58.805 million (2003: $50.678 million) of debited mutual premium does not become due until December 2004.

Note 14 - Sundry Debtors

Amounts in $000	**2004**	2003
Reinsurance recoveries	**1,412**	679
Other P&I associations and insurance companies	**1,116**	2,950
Funds with representatives	**1,485**	885
Claims recoverable from Members and third parties	**6,397**	9,180
Claims advances and other balances	**1,457**	1,861
	11,867	15,555

Note 15 - Outstanding Claims (see note 2(k))

Amounts in $000	**2004**	2003
Closed policy years	**256,309**	241,753
Open policy years		
2003	**211,759**	
2002	**176,441**	241,969
2001	**88,205**	134,294
2000	**-**	99,179
	732,714	717,195
Gross outstanding claims	**878,987**	832,426
Reinsurance recoveries	**(146,273)**	(115,231)
Net outstanding claims (above)	**732,714**	717,195

The total of outstanding claims of $879 million includes a forecast of unreported claims of $284 million on open and closed policy years and an estimate of $42 million for future claims management costs. The reinsurance recoveries include $47 million under the International Group's Pooling Agreement, $52 million under the Group's excess of loss reinsurance contract and $47 million under a multi year reinsurance arrangement with the European Reinsurance Company of Zurich, Bermuda branch.

Note 16 - Creditors

Amounts in $000	**2004**	2003
Reinsurance premiums	**4,234**	3,114
Members' balances	**653**	564
Others	**13,214**	9,614
Taxation	**-**	170
	18,101	13,462

Note 17 - Reserves

Amounts in $000	2004	2003
Open policy years:		
2003	**(50,645)**	-
2002	**(122,918)**	(108,843)
2001	**(74,929)**	(85,786)
2000	**-**	(86,517)
	(248,492)	(281,146)
Contingency Account	**360,699**	360,739
Catastrophe reserve	**53,908**	51,081
US Oil Pollution AP reserve	**45,569**	41,814
Reinsurance Retention reserve	**7,750**	6,570
	219,434	179,058

The reserves are available to meet any deterioration in the open and closed policy years and to contribute to overspill or pool claims for which no specific provision has been made. If necessary these funds may be supplemented by calls upon Members (other than those on a fixed premium basis) in accordance with Rules 19 to 25 inclusive. $1.5 million of the reserves are included in the Singapore Branch financial statements, as required by the Singapore regulator.

Note 18 - Designated Reserves

In recent years the increase in the Group Pool retention has led the member Associations of the International Group of P&I Clubs to enter into a joint agreement to provide each other with additional security. Under the Agreement this Association holds a letter of credit for $49m to cover its share of the increased Group exposure.

Note 19 - Average Expense Ratio

In accordance with Schedule 3 of the International Group Agreement, the Association is required to disclose its Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment income.

The operating expenses include all expenditure incurred in operating the Association, excluding expenditure incurred in dealing with claims. The premium income includes all premiums and calls. The investment income includes all income and gains whether realised or unrealised, exchange gains and losses less tax, custodial fees and internal and external investment management costs.

The Association does not charge internal investment management costs to investment income but includes these costs within the management fee within operating expenses. To calculate the ratio, the figures are those disclosed within the statement of operations except that the internal investment management costs are taken as being the subsidiary company's management fee.

For the five years ended 20th February 2004, the ratio of 10.64 per cent has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant financial statements.

This represents a decrease over last year's five year ratio due to the increased average annual premium in this year's five year calculation and the much improved investment performance. The increase in operating expenses during the 2004 year (see Note 7) reflected the sharp and prolonged depreciation in the value of the US dollar relative to sterling. The ratio for the 2004 year was lower than 2003 at 7.42 per cent as a result of the increased premium and investment income (see Notes 4 and 8).

Note 20 - Exchange Rates

The following rates of exchange were applicable at 20th February 2004:

	2004 $1 Equals:	2003 $1 Equals:
Canadian dollar	**1.3455**	1.5051
Japanese yen	**108.855**	118.430
Euro	**0.7954**	0.9242
Norwegian krone	**6.9984**	6.9511
Sterling	**0.5348**	0.6274
Swedish krona	**7.3068**	8.4378
Swiss franc	**1.2550**	1.3579

MANAGERS AND OFFICER

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