THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION (BERMUDA) LIMITED

DIRECTORS' REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 20TH FEBRUARY 2008

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE

ASSOCIATION (BERMUDA) LIMITED

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CHAIRMAN'S STATEMENT

In my Chairman's Statement last year, I expressed concern at the exceptionally high frequency and value of the claims notified to the International Group Pool in 2006, even though an unusually low number of those claims were incurred by our own Members. At the half-year point of 2007, after eighteen months' development, it had become evident that 2006 Pool claims would indeed be at a record level and, more worryingly, that claims notified to the Pool in the first six months of 2007 confirmed this trend. As was expected, the early 2007 experience also showed that our own Members were not entirely immune from the unfortunate events which lead to major claims.

The half-year also brought clearer signs that the cost of routine P&I claims at lower levels, particularly crew claims, was indeed being pushed up way above ordinary inflation, as a result of the rapid increases in crew wages and commodity prices and the continuing devaluation of the US dollar, which we have all experienced in the last few years. The relevant factors were analysed by the Managers and distilled into the newsletter which accompanied notice of the decision the Board took in October for the 2008 general increase. This decision sought to address the new level of expected Pool claims by a separately identified Pool surcharge in addition to a general increase for ordinary claims.

The financial results and the $34 million fall in free reserves, which the Club is reporting at this year end, must be seen in this context. The actions the Board has already initiated to redress the adverse factors which we have identified, give me confidence that the Club remains on a sound financial footing for the future. Unfortunately, this has meant that a significant increase in the cost of P&I insurance has again been required. I am grateful to all of our Members for their understanding of the need for the premium increase at the last renewal and especially to those many Members with newbuilding programmes who have demonstrated their confidence in the Club by committing the entry of their new ships over the ensuing year.

The full year figures now reported have to a large extent borne out the projections at the half-year point. The cost of Pool claims in 2007 is now projected at a lower level than for 2006, but this is only marginal and the overall cost of claims in this year is projected to be higher than 2006. The Club's own good Pool record has also reduced the Club's share of Pool claims for both 2006 and 2007. The Club's general claims reserves for earlier years have been strengthened since last year and the reserve for 2007 outstanding claims has been set at a historically high level consistent with the Club's policy of prudence at this early stage of a year's development. The need for the increase in premium levels which was achieved on renewing fleets at 16.5% at the 2008 renewal has been fully justified.

In a mutual club, investment income is available to offset the cost of claims. Reinsurance is also a useful tool to mitigate the financial impact of unexpectedly high claims. Both have been used for many years by the Club to try to stabilise the call requirement from Members, but it is only recently that the Board has developed its risk management approach on a holistic basis. Our integrated risk management framework is now of crucial importance for the Board's governance of the Club. It is also a requirement of our regulators in the form of our Individual Capital Assessment and gives increasing confidence to the rating agencies.

As part of that risk management process, the Board reviewed both reinsurance and the investment policy at the same time as the call requirement for 2008, and decided to reduce the investment risk by significantly reducing our exposure to equities. In view of the state of the credit markets, this decision was timely and we have achieved a steady, if unspectacular, investment performance for the year of 6.5%. The level of investment risk appropriate for the Club will remain under regular review by the Board as part of our risk management framework.

The Club continues to benefit from its own reinsurance contract with Swiss Re for which the cost was fixed in 2000. In addition to the recoveries already made under the contract, our claims experience in the last two years, coupled with slightly improved terms, has increased the likelihood of a further recovery on this contract if the claims experience in the next two years follows a similar pattern to 2006 and 2007.

The International Group's reinsurance contracts were successfully renewed at the end of the year with a modest adjustment to the premium, but the cost of claims falling on the Group's reinsurance captive, Hydra, in particular in the upper Pool layer between $30-50 million, necessitated a substantial increase in premium for Hydra. Without Hydra, on the upper Pool loss record as it is today, a similar or even greater increase would have been required by the commercial reinsurance market and at least the premium paid to Hydra stays within the Group clubs' economy until required for claims.

The revisions to the governance structure we implemented last year have worked well over the year, with the key committees of the Board, particularly the Strategy Committee and the Audit Committee, playing an increasingly important role in enabling the attention of the full Board to be focused on the key issues for the Club. This in turn means that the demands on committee members are now considerable and I am grateful to all of them for devoting their time so generously and for the contributions they have made to the Club. In particular, my Deputy Chairmen, on whom much of the burden falls, have been a constant source of support and wise counsel.

In addition to their membership of all the committees, two Deputy Chairmen serve as chairmen of the Club's subsidiary companies – Eric André as chairman of the Club's reinsurance company (IPIR) and Dino Caroussis as chairman of the newly formed UK Europe Club, which has seen a very successful start to its operations with approximately 10% of the Club's Members taking advantage of UK Europe's EU regulatory passport. The third Deputy Chairman, Alan Olivier, also represents the Club on the board of our Managers' holding company in which the Club continues to maintain its investment. Without their commitment to the affairs of the Club, my role as Chairman would be much more onerous.

Since last year, four Directors have left the Board, A.H. Al-Roumi, T. Hojo, D. Lim and P. Wogan. I would like to thank them for their respective contributions to the Club's affairs and to welcome our new Directors – F.A.H. Ali of Kuwait Oil Tanker Co, T. Held of Neptune Orient Lines Ltd., T. Kaneko of Nippon Oil Tanker Corporation and Captain Zhang Liang of COSCO. We look forward to their participation in our deliberations.

This is my last Chairman's statement as I have decided to retire from V.Ships, the company I represent on the Board of the Club, and consequently I shall retire from the Board at the forthcoming Annual General Meeting in October. It has been a privilege to serve as Chairman of our Club and I have found my time on the Board most stimulating. P&I insurance may be thought of as a very small area of the business of shipping, but in my forty years of experience in all aspects of shipping, being a member of the Board of the Club and the relationship with my fellow Directors has been one of the most enjoyable experiences.

The range of issues which the Directors are required to address can be seen from the annual review. Although the business of P&I insurance becomes ever more technical, having a Board which is truly representative of its shipowner Members remains a fundamental strength, ensuring the Club is governed in the interests of all its Members.

As Chairman, I have also had the opportunity of working closely with our Managers and I would like to record my appreciation of the dedication which they bring to all aspects of the day-to-day management of the Club.

The Club remains in good health as I pass on the chair to my successor and I am convinced that our Club will continue to provide for its Members the high standards of service we have expected from it over the years. My expectation is that P&I insurance will continue to become more expensive as the environment in which shipowners operate is ever less forgiving of accidents of any kind. We can do our best to avoid those accidents and the Board will of course be seeking to minimise the cost of P&I cover wherever consistent with maintaining the strength of the Club and its objectives. But the true value of our Club is in the protection it gives us against the worst financial consequences of a major incident and the help which we can expect from the Managers' staff across the world in dealing with the problems which inevitably arise.

Tullio Biggi
Chairman

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 2008.

Principal activities of the Association

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

At 20th February 2008 the owned tonnage entered in the Association and through its subsidiary, The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited, on mutual terms totalled more than 119 million gross tons (2007: 106 million). In addition, on average at any time in the year approximately 55 million gross tons (2007: 55 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.

The Directors are themselves active shipowners, and are 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.

At the Board meetings, the Directors receive reports from the Managers on all areas of the Club's operations in accordance with an agreed schedule of reports. The Board also considers and decides issues of policy on general matters concerning the Club and the Members' interests.

The Chairman and Deputy Chairmen meet with the Managers regularly during the year to discuss with the Managers current developments and the preparation of matters for consideration and decision by the Board.

The Board has established a number of committees of the Board and a Strategy Committee. The Strategy Committee meets at least four times a year to provide in depth discussion and analysis of strategic issues which are to be considered by the Board and of any particular matter which the Board decides to refer to it. The Committee reports to the full Board with the results of its deliberations and its recommendations.

The Audit Committee of the Board meets three times a year. Its current chairman is Mr Eric André who is a Deputy Chairman of the Club, the other members being Mrs Kathryn Siggins and Mr Adamantios Lemos, Directors of the Club, Mr Albrecht Metze, a former Director of the Club and Mr Nigel Smith, an independent member of the Audit Committee who was previously a partner with KPMG with insurance and shipping experience. Nigel Smith has specific responsibility for liaison, on behalf of the Committee, with the Club's internal auditor.

Other sub-committees of the Board are formed to review specific issues as delegated by the Board, or to take decisions on behalf of the Board for instance in connection with the operation of the Club's War Risks cover where urgent decisions may be required.

Directors

The present Directors of the Club are shown on page 6. Also shown are those who retired from the Board since February 2007.

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 Club.

Bye-Law 14 (c)(i) provides for Directors to retire who have been in office for three years since their last election. Consequently Messrs E. André, C.I. Caroussis, Amir Azizan, M.L. Carthew, S. Frank, N.G. Inglessis, A.C. Margaronis, M. Sato, P.A. Vasilchenko and H. von Rantzau will retire at the forthcoming Annual General Meeting in Hong Kong on 27th October 2008. All these Directors have offered themselves for re-election.

In October 2007, Mr T. Biggi was re-elected as Chairman of the Board of Directors and Messrs E. André, C.I. Caroussis and A.K. Olivier were re-elected as Deputy Chairmen.

DIRECTORS

T. Biggi	V. Ships Group Ltd, Monaco
Chairman and President	
E. André	Suisse-Atlantique S.A., Renens/Lausanne
Deputy Chairman & Vice President	
C.I. Caroussis	Chios Navigation Co. Ltd, London
Deputy Chairman & Vice President	
A.K. Olivier	Grindrod Ltd, Durban
Deputy Chairman & Vice President	
F.A.H. Ali *	Kuwait Oil Tanker Co. S.A.K., Kuwait
A.H. Azizan	AET UK Limited, London
G. Bottiglieri	Giuseppe Bottiglieri Shipping Company S.p.A., Naples
M.L. Carthew	Chevron Shipping Company LLC, San Ramon
P. Decavèle	Broström Tankers S.A.S., Paris
L. Fønss Schrøder	Wallenius Lines, Stockholm
S. Frank	OAO Sovcomflot, Moscow
O. Gast	Hamburg Südamerikanische Dampfschifffahrts-Gesellschaft K.G., Hamburg
I.J. Gaunt	Carnival Corporation & plc, London
T. Held *	Neptune Orient Lines Ltd, Singapore
N.G. Inglessis	Samos Steamship Co, Athens
J.P. Ioannidis	Olympic Shipping and Management S.A., Athens
M.R. Itkin	Overseas Shipholding Group Inc, New York
A.C. Junqueira	Petrobras Transporte SA - Transpetro, Rio de Janeiro
T. Kaneko *	Nippon Oil Tanker Corporation, Yokohama
C.E. Kertsikoff	Eletson Corporation, Piraeus
J.M. Kopernicki	Shell International Trading and Shipping Co. Ltd, London
P. Kragic	Tankerska Plovidba d.d., Zadar
J.B. Lee	Korea Line Corporation, Seoul
A.M. Lemos	Unisea Shipping Ltd, Piraeus
P. Louis-Dreyfus, OBE	Louis Dreyfus Armateurs S.A.S., Paris
A.C. Margaronis	Diana Shipping Inc, Athens
E.T. Richards	Hamilton, Bermuda
M. Sato	NYK Line, Tokyo
S.H. Seyedan	National Iranian Tanker Co, Tehran
K. Siggins	Hamilton, Bermuda
N.P. Tsakos	Tsakos Energy Navigation Limited, Athens
P.A. Vasilchenko	Far Eastern Shipping Company, Vladivostok
H. von Rantzau	DAL Deutsche Afrika-Linien GmbH & Co, Hamburg
Zhang Liang *	China Ocean Shipping Group Company, Beijing

* New Directors elected in October 2007

The following Directors have left the Board since February 2007:

A. H. Al-Roumi
T. Hojo
D. Lim
P. Wogan

REVIEW OF THE YEAR

FINANCIAL

Performance for the year to February 2008

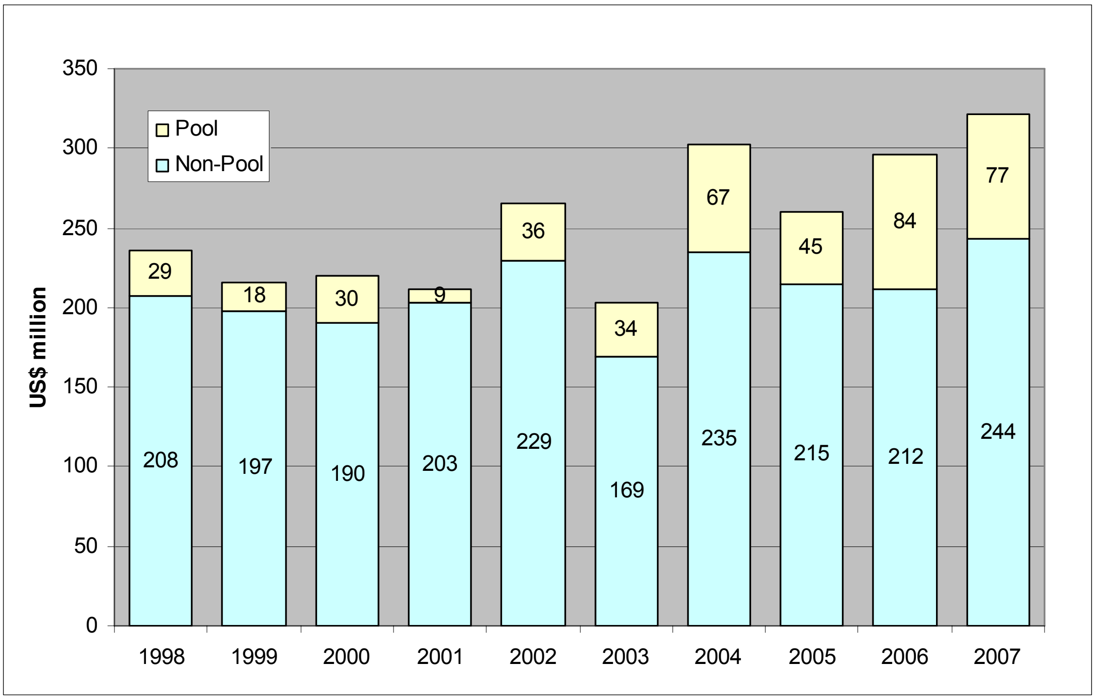
The continued high levels of claims as well as a turbulent investment environment have shaped the outcome for the year to February 2008. The 2007 policy year claims continued at similar levels to the 2006 policy year, albeit with the relationship between the Pool and retained claims reversed to some extent. The 2007 policy year has seen an increase in the retained claims, but a slight reduction in the overall level of Pool claims. This has led to a decision to strengthen the claims reserves on both policy years. At the same time the Club heeded signs of uncertainty in the financial markets and made a substantial switch out of equities into fixed interest and cash in October. As a result of this the investment income performance for the year was above initial expectations, returning 6.5 per cent and thereby also substantially reducing the Club's investment risk. Whilst investment income exceeded expectations, the strengthening of reserves on a number of years led to an overall deficit of $34 million.

Underwriting and claims

Premium income
At the 2008 renewal the Club set an increase target of 17.5 per cent on renewing mutual owned tonnage and achieved 16.5 per cent before terms. Although the Club increased tonnage during the year there was a small net loss of tonnage on renewal. The year represented continued progress to achieving the target of balanced underwriting in an environment where the increase in claims shows no sign of abating. Fixed premium account business continued to be a strong contributor bringing in $80 million of premium overall with time charter accounting for $58 million.

Claims
The sustained high level of large claims costs which shaped the 2006 policy year continued in 2007 and on an historical basis the 2007 Pool will still rank amongst the most expensive in the past two decades despite the Pool claims being slightly lower than 2006. Incurred claims (paid claims and estimated claims) reported to the 2007 Pool after twelve months were still approximately 85 per cent above the average of the preceding five years. Additionally the incurred claims within the Club's $7 million retention were about 18 per cent above the average of the preceding five years after twelve months. Figure 1 shows the expected ultimate cost of claims split between Pool claims and non-Pool claims. This shows how Pool claims are the main contributor to the rising cost of claims in recent years with the rise in the Club's own claims in 2007 adding additional pressure.

Figure 1: Composition of policy year ultimates between Pool and Non Pool

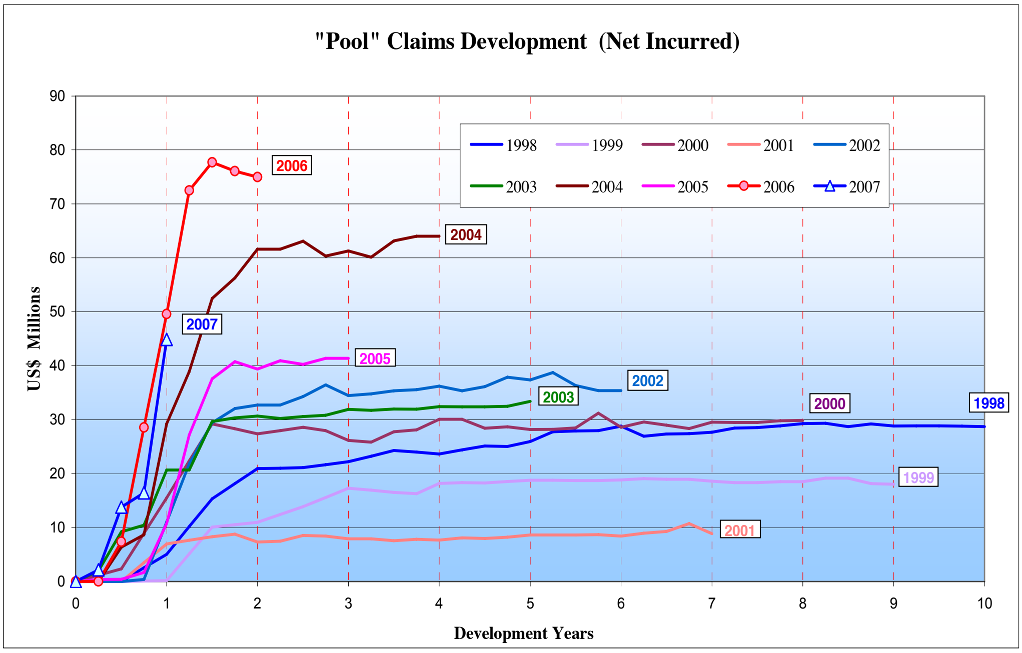


Together with some deterioration in older policy years this has meant that the Club has had to strengthen the claims reserves considerably over the past year. The majority of this reserve strengthening occurred in the first and second quarters of the last financial year as the development of 2006 policy year became clearer and the first evidence of the shape of 2007 became evident. Although the cost of the Pool as a whole has been increasing, the Club's good record on Pool claims has warranted a reduction in its percentage contribution compared with previous years.

Pool claims

The 2007 Pool will be amongst the highest of the past 15 years. The cost of the Pool to the UK Club in the 2007 policy year is forecast to be as much as $77 million, based on the UK Club's provisional share of the 2007 Pool of 14.56 per cent, somewhat less than the Club's current projection of about $84 million for the 2006 policy year Pool (see Figure 2).

Figure 2: Net incurred claims development (Pool)



The Club provided Members a detailed commentary on the rising cost of claims in an October 2007 publication captioned "*Claims Factors Affecting the 2008 Policy Year General Increase*" which focused on Pool level claims and raised awareness amongst the Membership of the risk and market factors fuelling the historically high level of Pool claims. Indications from the 2007 Pool, and statistics from Hull insurance organisations such as IUMI, indicate the number of large marine losses continues. There were reportedly more total losses in 2007 than 2006.

The interplay of complex factors, and the random nature of large casualties, negates the ability of the Club to pinpoint clear causes of the rise in large claims. The upward trend is likely influenced by many of the following factors often in combination: a growing world fleet with more ships entered in International Group clubs with the proportional increase in risk insured, strong freight markets creating commercial pressure on owners and the crew on board, high ship values, larger ships with higher cargo capacities and which present new technical challenges during salvage, human error where owners face challenges obtaining and training crews, elevated wreck removal and salvage costs, growing public and political environmental sensitivity which amplifies the cost of response and clean up of escaped fuel or of pollutants, sustained commodity prices and storm weather affecting ships, amongst others.

The evolving marine liability legal environment systematically places greater liability on ship owners, which in turn drives claims costs higher over time. With the introduction of conventions on bunkers, wreck removal and periodic increases in compensations regimes Members should anticipate persistent claims cost inflation.

Two 2007 claims from other International Group clubs in particular have attracted significant public attention and will affect the 2007 Pool; a spill off the coast of South Korean involving the VLCC HEBEI SPIRIT and the bunker spill from the container vessel COSCO BUSAN in San Francisco Bay. Interestingly the claims both involve the accidental discharge of oil but the real interest may be how the limitation provisions of US law and the international CLC regimes apply.

On 7th November 2007 the container vessel, COSCO BUSAN, struck San Francisco's Bay Bridge in heavy fog. No structural damage was caused to the bridge but the container vessel's hull was damaged resulting in the escape of 200 tonnes of heavy fuel oil from the bunker tanks.

The oil spread through San Francisco Bay and along coastlines to the north and south of the Bay entrance. A response operation was launched, involving state, federal and local agencies, as well as private contractors. The Governor of California, Arnold Schwarzenegger, declared a State of Emergency on 9th November. By 18th November there was no sheen or floating oil.

NRDA Working Groups have been established to examine injuries to birds, fish, marine mammals, various shoreline habitat types, water column, eelgrass and archaeological sites, as well as estimating losses to recreational use of the shoreline.

The spill compensation will be subject to the Oil Pollution Act of 1990 (OPA 90) limits of compensation, as well as possible state or other laws. Under OPA the limitation value of the COSCO BUSAN is $950 per gross ton which, if damages and costs exceed that amount, should limit the exposure and would be a deep concern to the industry if limitation were in doubt in any manner.

Exactly a month after the COSCO BUSAN accident, on 7th December 2007, the HEBEI SPIRIT, a laden VLCC, was struck in poor weather by a crane barge which was in tow. Accident investigations have not concluded. The contact breached the tanker's shell plating and ITOPF estimates that approximately 10,500 mt of crude oil spilled, spreading as far as 375 kilometres south of the vessel, making it one of the most significant spills of recent times. The initial clean up lasted several months and the full impact of this serious spill may not be determined for some time to come. A detailed report of the environmental impact of the spill can be found on the ITOPF website, www.itopf.com.

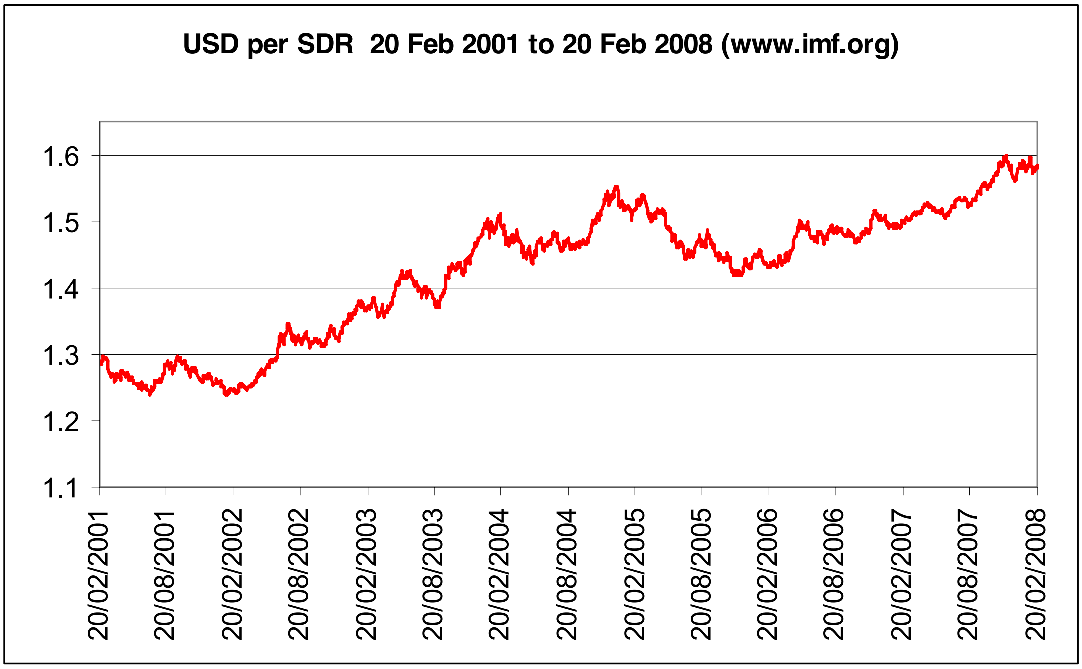
The HEBEI SPIRIT compensation will be determined by the Civil Liability Convention which will provide a maximum compensation for a vessel of its size of approximately Special Drawing Rights 89 million, or at the current exchange rates some $140 million, and if this is exhausted, claims will fall on the IOPC Fund.

On balance the 2007 Pool will be amongst the most expensive of recent years. The Club itself had 3 Pool claims varying between $9-18million compared with a total cost of the Pool at the twelve month stage of $550 million.

In addition to the claims factors noted above, the nature of many Pool claims, like the HEBEI SPIRIT is that the loss is incurred in a currency other than the Club's accounting currency and USD exchange rate deterioration amplifies the losses. The Club accounts, reinsurance rates and many P&I liabilities are expressed in US Dollars. Selecting one of many exchange rates the Special Drawing Rights (SDR) is the basis of some limitation conventions. To illustrate the currency change impact by example, a full CLC compensation payment for a spill from a VLCC would be about SDR 89 million, as is the case for the HEBEI SPIRIT claim.

Expressing the liability in US Dollars on 20th February 2001 and 20th February 2008, the payment would be $114 million and $140 million, respectively. This 23 per cent nominal increase flows solely from US Dollar deterioration not a change in compensation regimes (see Figure 3).

Figure 3: USD per SDR 2001 to 2008



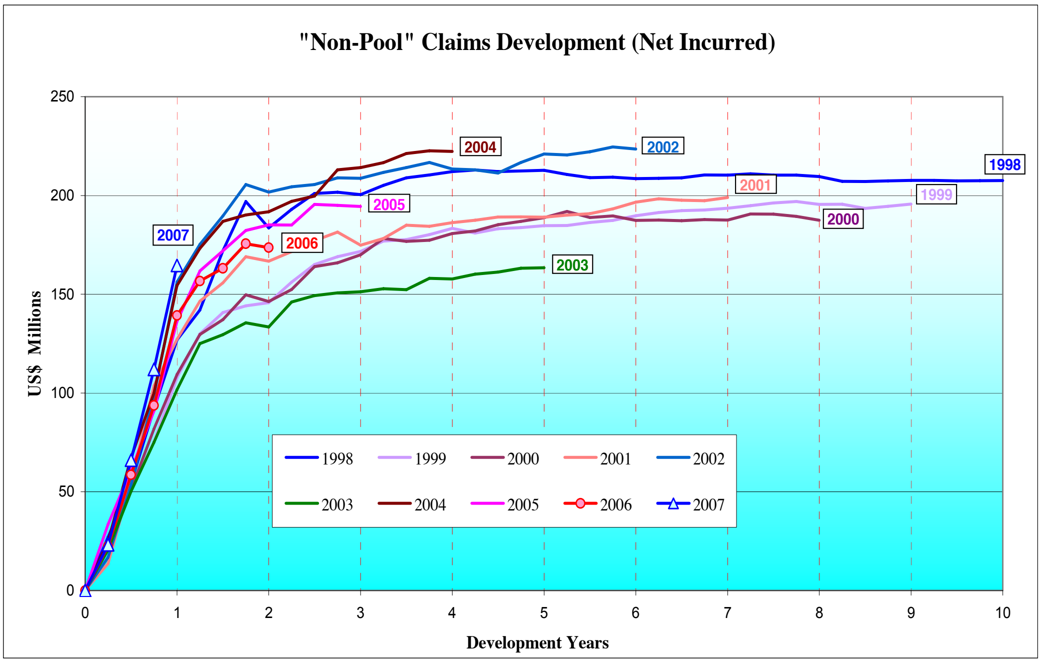
Many claims in non-USD currencies, particularly claims in Euros or Yen, would have experienced similar patterns, or more significant changes.

Whilst the cost of the Pool has been increasing over recent years the Club's own claims on the Pool have not shown the same trend with an absence of claims in excess of the lower Pool retention since 2004. As the Club's contribution to the Pool is based partly on its own Pool record this has led to the Pool contribution percentage falling over recent years.

Non Pool Claims

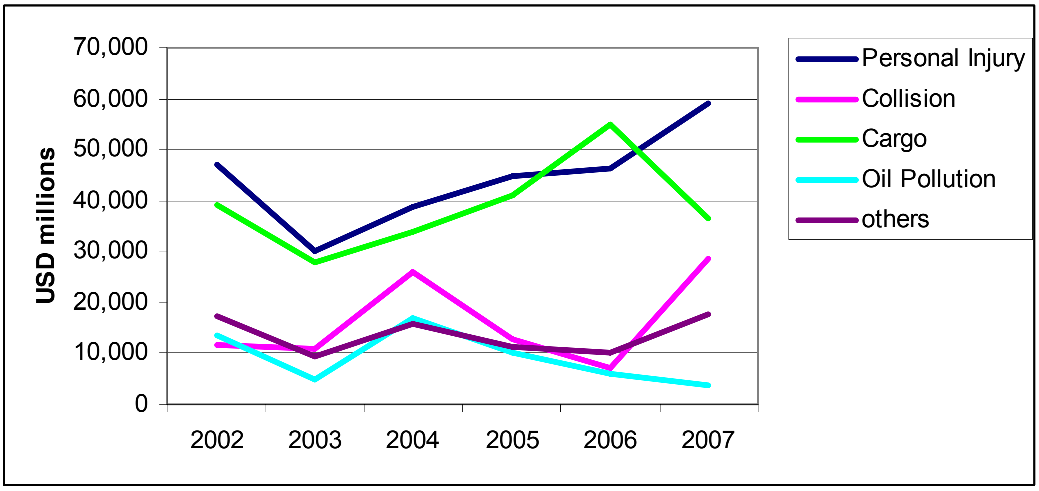
In contrast to the slight improvement in the cost of reported Pool claims from 2006 to 2007, the Club experienced a slight increase in the cost of retained claims (i.e. within $7 million per claim). At the same stage 12 months from inception of the policy years, retained claims reported increased from $139.3 million to $164.6 million, or some 18 per cent.

Figure 4: Net incurred claims (non Pool)



The increase is largely attributable to the increased cost of collision and personal injury claims, whereas the Club experienced a slightly favourable decline in reported cargo claims. It is also pleasing to note that the oil pollution liability reported by Members of the Club was the lowest of the past five policy years.

Figure 5: category of incurred claims by policy year at 12 months' development



In 2007 four significant collisions were reported with total cost of $28.5 million, or nearly four times that of the preceding policy year, and double the average of the preceding five years. The most publicised of which was between the MSC JOANNA and a large dredger near Tianjin, China, which resulted in a Pool claim for the Club. This variation, and the contrast to the exceptionally good 2006 policy year, illustrates the volatility the Club can experience with this category of claim.

By contrast to the volatile pattern of collision claims, the Club is experiencing a steady upward increase in the cost of the cost of personal injury claims, illustrated in Figure 5, which has been noted to Members previously, and linked to such factors as higher crew wages and compensation regimes, higher cost of medical care, better medical technology which helps injured persons survive previously fatal injuries albeit at significantly higher cost. The Club's Pre-Employment Medical Examination (PEME) loss prevention programme, which was designed to address the growing cost of crew illness claims, is commented on below.

Despite the sustained high level of commodity costs, it was pleasing that Members reported a slight decrease in the value of cargo claims. This was not an anticipated pattern given the changes in the value of commodities, as set out in a March 2008 study by the IMF which illustrates a relatively sharp rise in commodity costs during calendar year 2007, see Figure 6. The Club will monitor closely the IBNR and future cargo claims patterns. The Club's experience is clearly atypical and the policies will be monitored closely over the next year.

Figure 6: commodity price trends

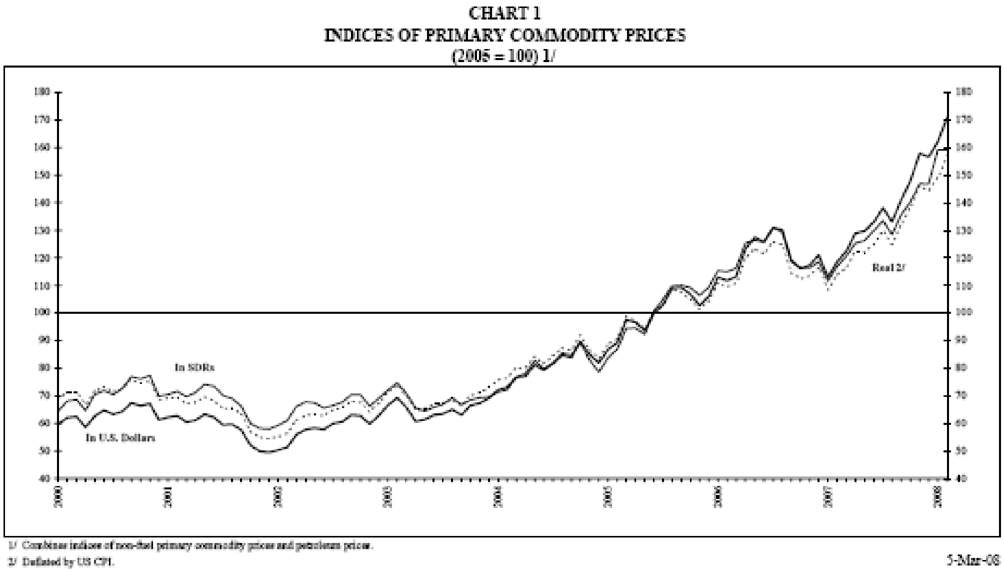
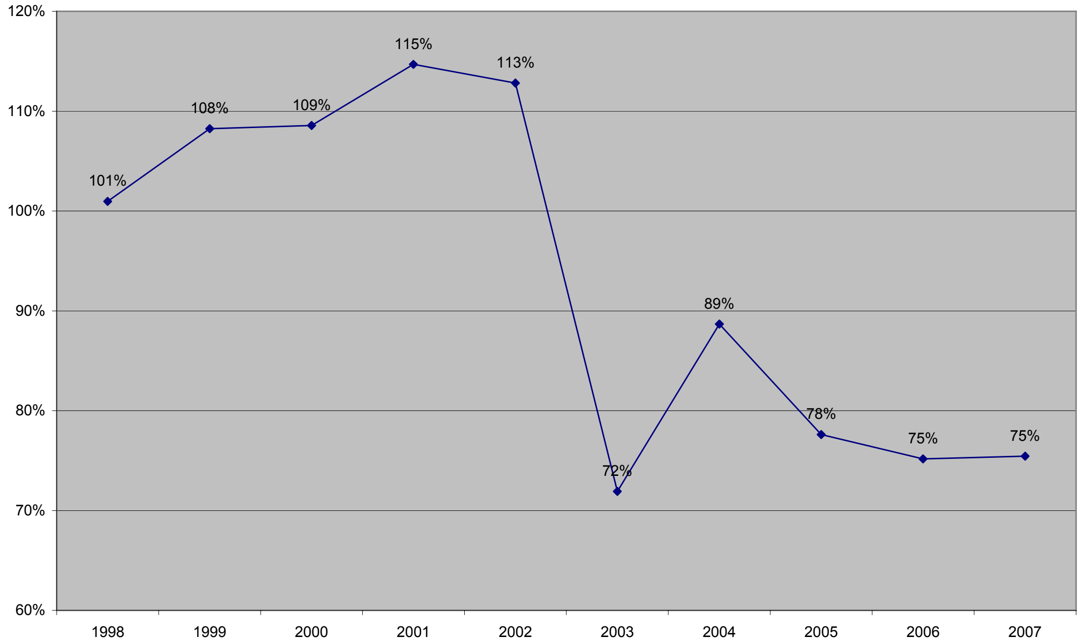


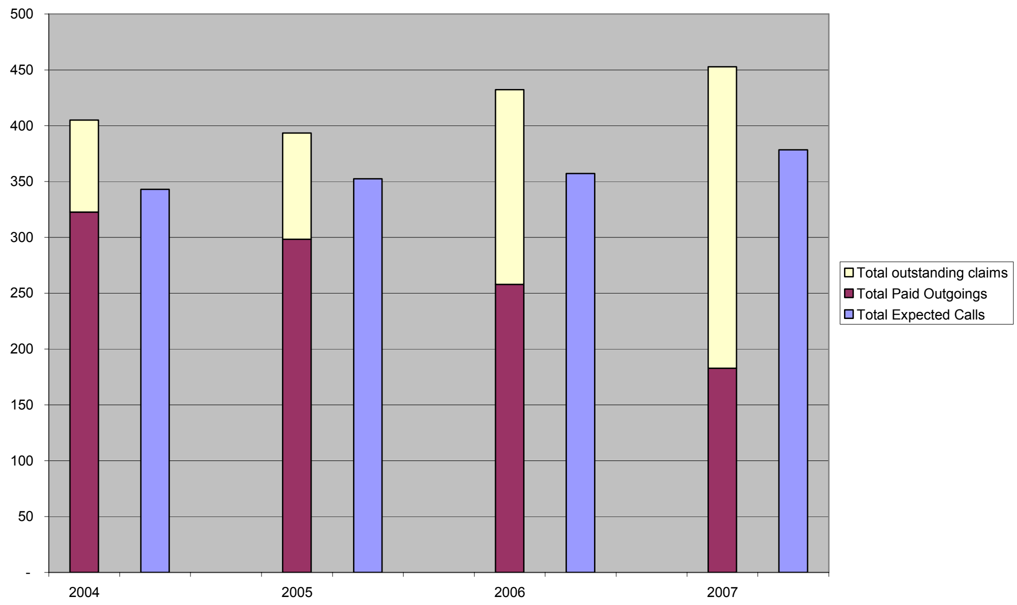
Figure 7: Net premium income by policy year compared to the net ultimate claims forecast for non Pool claims



The Club's non Pool record has improved since 2001 as the ratio between net premium and net ultimate claims for non Pool claims by policy year has fallen, as shown in Figure 7. This is a result of a relatively stable performance on the Club's own claims combined with an improvement in premium income. However, although the premium has increased in recent years the Board will need to ensure that premium keeps pace with foreseeable claims developments as well as future capital requirements. The Board decided when formulating the latest Corporate Plan to move closer to break-even underwriting in order to manage this risk and will need to ensure that premium levels remain appropriate to cope with what might be a higher level of Pool claims. The analysis of the development of policy years, Figure 8 below, shows that despite the increases in premiums over recent years the rate of growth of total outgoings means that the policy years are still in deficit before accounting for investment income.

Policy year development

Figure 8: Analysis of incomings and outgoings for policy years 2004-2007- excluding investment income



The 2004 policy year was closed at 20th February 2007 which resulted in a transfer of $61.6 million to the closed years fund from the contingency account. This policy year remains one of the most costly in recent times. Although the 2005 policy year was marked by a number of personal injury and passenger claims the deficit on the year is much lower than both 2004 and the 2006 policy years. The 2006 policy year's technical reserves were set at February 2007 based on a considerable amount of uncertainty of the cost of the Pool after only 12 months of development. The fifth quarter of development on that year was particularly marked and necessitated increasing the ultimate claims forecast considerably. However, the subsequent development of that year in more recent quarters has given grounds for optimism and enabled a release of some of the provision for the year. Conversely, the 2007 year has been reserved cautiously at this stage taking into account the increase in claims within the Club's retention and the effect noted in the fifth quarter of the previous policy year.

In an uncertain investment environment where the return on fixed interest is particularly low it is all the more necessary to continue to take the steps to achieve an underwriting breakeven position. Even though the increase set for the 2008 renewal for the Club was high at 17.5 per cent, the wisdom of this course of action has been seen through the factors that continue to drive the level of claims higher, both for the Club's own claims as well as those in the Pool.

Discretionary claim

A cornerstone of mutuality is the right of Members to seek the discretion of Directors under the "Omnibus Rule" to pay a claim not recoverable as of right under the Rules. During the 2007 year, one claim for consideration was presented to the Directors. The Member incurred a penalty for an alleged navigational error relating to speed of navigation and under Section 22(F) of Rule 2 the Directors exercised their discretion to indemnify the claim.

Swiss Re

At the end of the last financial year the full limit of a claim under the first section of the Swiss Re contract had been accrued as expected. The second section of the contract continues to provide high level excess of loss protection with $70 million of cover.

S&P rating

The Club maintained its "A" strong rating with Standard and Poor's.

Capital and risk management and regulation

The Club is regulated in a number of parts of the world with the principal areas being: Bermuda, UK, Hong Kong, Isle of Man, Japan, Singapore and the USA. Regulatory requirements vary by country but one theme common to all regimes is a move to more advanced risk based approaches to capital and solvency requirements. Last year saw further development by the EU of its work on Solvency 2 with the publication of the draft directive. The Club and the International Group remain active in working with national regulators, governments and the EU in the development of Solvency 2.

One of the main areas of consultation relates to how much capital an insurer should hold. The EU has now conducted two major studies in this area and has a further study set for April 2008, Quantitative Impact Study 4 (QIS 4). The Club and the International Group have carried out a major internal study in this area and submitted their findings to the EU and there are encouraging signs that the lobbying efforts are paying off. Continued involvement in this and other areas remains important.

The FSA in advance of Solvency 2 has developed its Individual Capital Assessment (ICA), approach to determining the levels of capital an insurer should hold. The ICA is intended to be equivalent to Solvency 2. Whilst Solvency 2 is still being consulted upon throughout the EU, the ICA regime is operational in the UK. The Club has now submitted its second ICA to the FSA during the Arrow visit in November 2007, and subsequent receipt of the Individual Capital Guidance (ICG), by the Club marked a successful conclusion of that process. This represents the second time that the Club has had its ICA accepted by the FSA. The UK Club maintains sufficient capital both for the FSA's ICG and also capital requirements in other countries where it is regulated.

INVESTMENTS

Economic Developments

The first half of 2007 was a continuation of 2006; strong and vibrant global economic activity and robust financial markets. The main concerns of policymakers were the build-up of inflationary pressures and how to cut carbon emissions. Against this background equity markets generally rose during the early part of 2007 as did bond yields. There was a warning in February that the year ahead might be difficult. Rumours of a tax change in China prompted a widespread sell-off in global equity markets. However, investors took the opportunity of lower prices to increase equity exposure and equity markets rose to new all-time highs.

In August everything changed with the announcement that BNP Paribas had closed one of its money market funds because of problems in pricing its portfolio. This was the first signal that the sub-prime crisis was going to become a systemic problem. The root cause of the sub-prime problem was the decline in US house prices. Mortgages had been extended to borrowers who had been previously denied mortgages because of their weak financial position. Consequently when the rapid decline in house prices occurred, much larger numbers of borrowers defaulted on mortgages than anticipated. The extension of mortgages to a large group of low quality borrowers, hence the name sub-prime mortgages, had been made possible by combining the mortgages of good borrowers with bad borrowers in sufficient quantity to satisfy the rating agencies that the combined package of mortgages qualified for a triple 'A' credit rating. In a low yield environment investors snapped up these higher yielding assets.

The sub-prime mortgage crisis rapidly spread to envelop all asset-backed securities which formed the cornerstone of many financial institutions, including banks. Banks cut back on their lending and investment banks had to write-off billions of dollars of capital and raise new capital. The crisis claimed a number of financial institutions, of which Northern Rock and Bear Stearns were the highest profile losses. The US Federal Reserve responded to the crisis by injecting liquidity into the financial system.

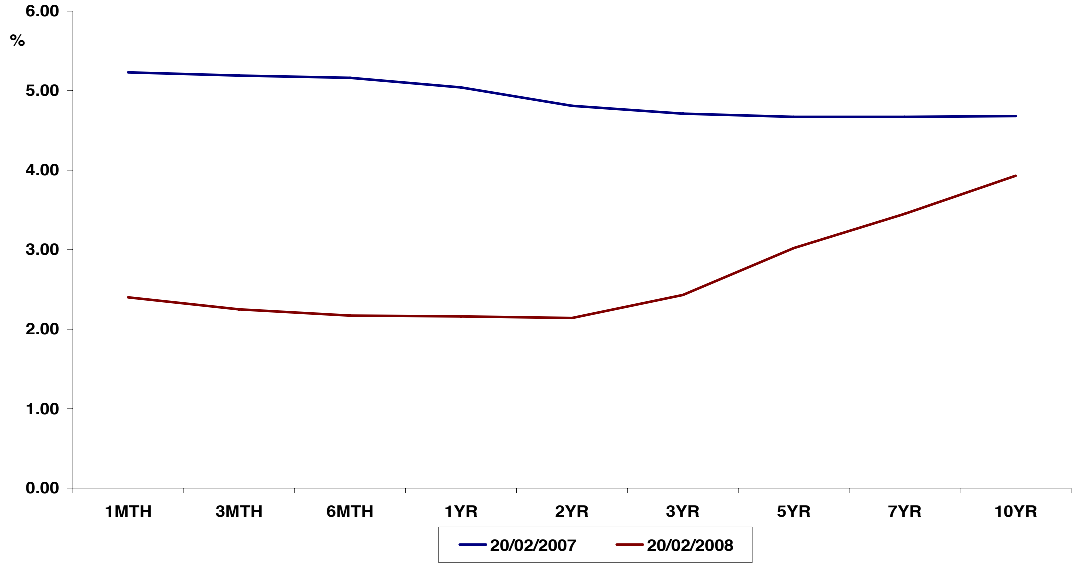
By February 2008 it was still too early to assess what effect the financial crisis would have on the global economy. The US economy succumbed first as the pace of economic growth slowed sharply in the second part of the year. The rest of the global economy, however, continued to expand at break-neck speed resulting in increasing inflation despite fears of a global economic recession.

Financial Markets

The sub-prime crisis had a marked effect on the behaviour of financial markets. Investors sought financial assets whose capital was guaranteed. This resulted in a sharp drop in government bond yields in developed economies, particularly the United States. The spread between corporate and government bonds widened sharply, ending a five year secular decline in the spread.

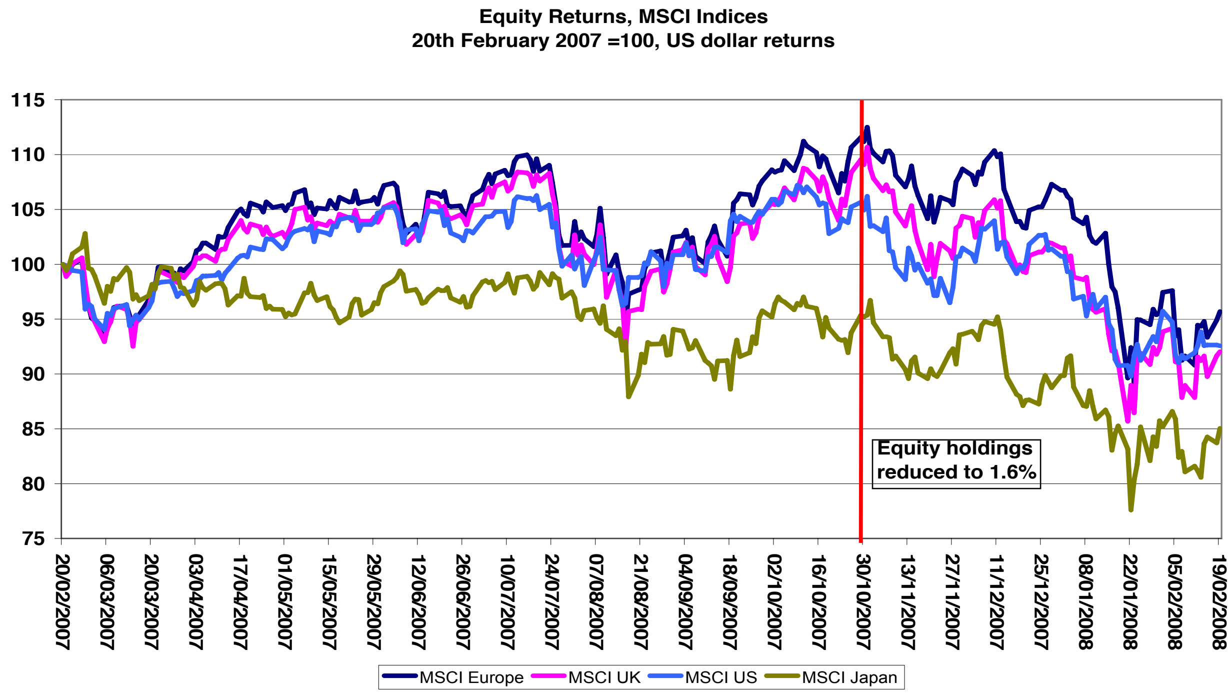
In its effort to ward off an economic recession the Federal Reserve cut short term interest rates sharply and this changed the shape of the yield curve to the more conventional positively sloped curve. In Europe the central bank injected sufficient liquidity to help the banks but did not cut interest rates which meant that the yield curves flattened. In the UK the Bank of England initially refused to inject any additional liquidity so the yield curve inverted as investors flocked to buy gilts. After the spectacular collapse of the Northern Rock Bank, however, the Bank's attitude towards injecting liquidity changed.

Figure 9: US Yield Curve as at 20th February 2007 and 20th February 2008



Initially equity markets fell sharply in the wake of the sub-prime crisis. In September, however, the equity markets rallied sharply in response to the easing in monetary policy but this was to prove the zenith and by the end of February the major markets had fallen by around 15 per cent.

Figure 10: MSCI equity returns February 2007-08

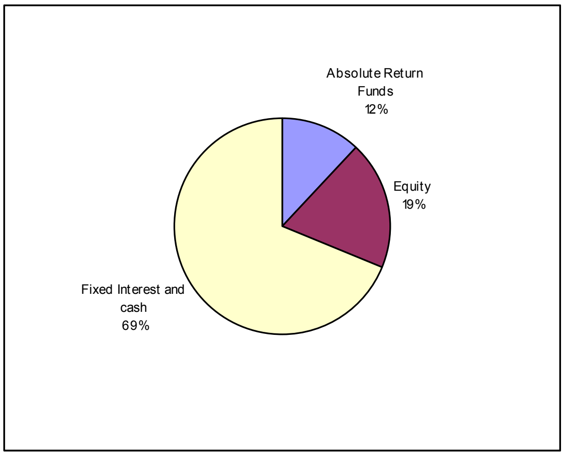


Investment Strategy

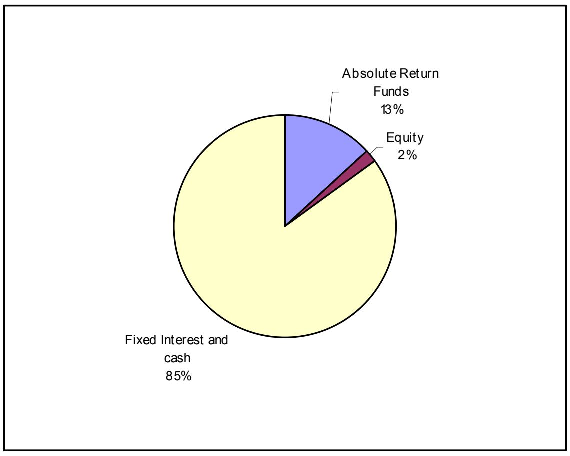
The largest change in the portfolio during the year was the reduction in equity holdings in October from 19 per cent to 1.6 per cent which kept the investment risk in balance with the business risk. The uncertain economic outlook was an additional factor for reducing investment risk. The proceeds from the sale were placed in short-dated fixed income securities or bank deposits.

Figure 11: Investment portfolio holdings

February 2007



February 2008



Investment return

The return on the investment portfolio was 6.5 per cent for the year compared to 9.7 per cent in the previous year.

The bulk of the investment returns were provided by the fixed income portfolio of 8.45 per cent which was less than the benchmark return owing to the rally in longer-dated fixed income securities towards the end of the year. The investment manager placed great emphasis on capital preservation during the second part of the financial year and therefore kept the majority of the assets in short term deposits.

The absolute return portfolio returned 3.75 per cent which was below the target of Libor plus 5 per cent owing to the low returns by managers in the second part of the year. The equity fund returned 4.2 per cent as the sale in October served to crystallise profits accumulated earlier in the year.

REINSURANCE

The largest single element of the Club's reinsurance is its participation in the Group Pool's excess of loss contract.

For the 2007 policy year, the key elements of the Group Pool's excess of loss contract were as follows:

For the 2007 policy year, the structure of the reinsurance arrangements changed in two respects from the 2006 policy year. The most significant change was the decision by the Group to buy overspill insurance protection on behalf of each club for all categories of claim up to $1,000 million in excess of the limit of the Group's reinsurance ($2,050 million). This cover, which was purchased following the decision by the Group clubs to introduce a limit on cover for claims in respect of passengers and seamen, was available to all Group clubs to reduce the exposure of their members to an overspill claim.

The other change was the decision to increase the Club retention to $7 million from $6 million. The Pool was therefore made up of two layers - $7 million-$30 million (the lower Pool) and $30 million-$50 million (the upper Pool). Each club's share of the lower Pool continued to be based on the "one third" formula. This provides that a club's share is calculated as to one third on the basis of the club's percentage proportion of the total tonnage in the Group for the policy years in question; one third on the basis of that club's percentage proportion of the total premium of the Group for that year; and one third on the basis of that club's own claims as a proportion of all claims on the Pool. The formula provides for a loss ratio adjustment mechanism which, for the time being, continues to be based on the historical record on the Pool back to 1970. During 2007, the International Group's Reinsurance Sub-Committee (RISC) began work to review the Pool mechanism to ensure that it continues to work as a fair risk sharing mechanism between the clubs in the Group Pool. That review, which encompasses both the lower and upper Pool share contributions, will be completed in 2008 and any changes agreed following that review applied to the 2009 policy year.

Contributions to the upper Pool layer continued to be pre-funded and premium for this layer was set by the Hydra Board based on the figures suggested by the Group claims data model. The upper layer of the Pool was reinsured into the Group captive, Hydra.

Hydra

Hydra reinsures each club in the International Group acting through segregated accounts in respect of that club's liabilities: first, in the layer $20 million in excess of $30 million in the Pool's retention of $50 million and, secondly, in the Group's 25 per cent coinsurance of the first layer of the general excess of loss contract of $500 million excess of $50 million.

Hydra protects its exposure to the coinsurance layer by a stop loss policy in the amount of $250 million in the aggregate, excess of $50 million (for a 25 per cent share). For both the 2006 and 2007 policy years, claims notified to Hydra in respect of the upper Pool layer have exceeded the net premium. Hydra has also recognised a potential reinsurance recovery on both those years on the coinsurance protection. For the 2008 policy year, Hydra increased its premium requirement for both layers by 45 per cent. The Hydra Board followed the market increase on the first layer and increased their requirement on the upper Pool layer by 75 per cent. This substantial increase in the premium for Hydra reflects the unprecedented level of claims on the Pool for 2006 and 2007. The claims figures reported in the financial statements include the effect of Hydra claims deterioration.

Swiss Re contract

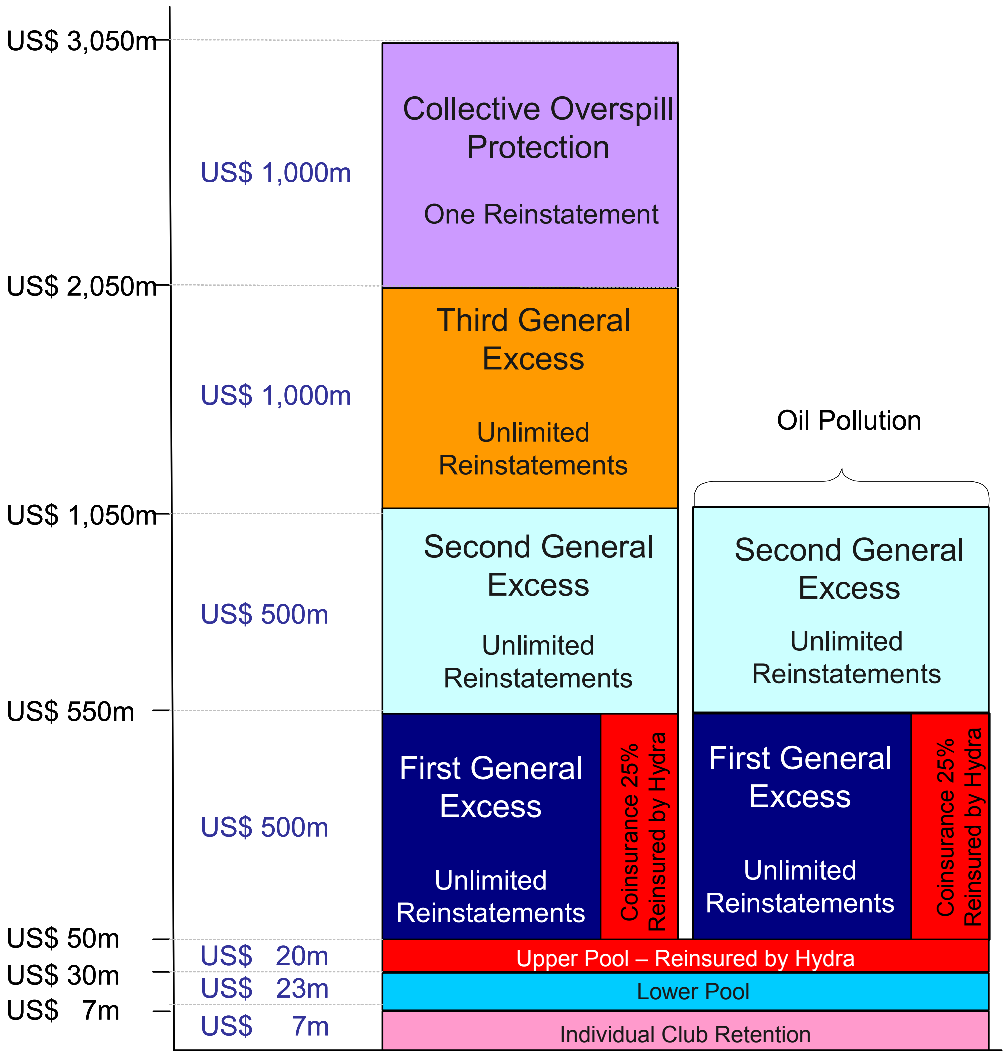
During 2007, the terms of the second section of the contract covering excess of loss protection cover for high level claims was reviewed again and the terms adjusted in the Club's favour.

2008 policy year arrangements

The structure of the contract remained unchanged from that of 2007. The Group once again bought overspill insurance protection on behalf of each club for all categories of claim up to $1,000 million in excess of the limit of the Group's reinsurance ($2,050 million). The cost of the overspill has been included in the reinsurance rates, which are charged to the different ship categories by all clubs in the International Group.

The main general excess of loss contract was renewed with the same layers as 2007 (see below for the structure of the Group reinsurance contract for the 2008 policy year in Figure 12 below). Although the cost to the first layer was increased, the overall result of the renewal of the general excess of loss contract was neutral when expressed as a rate per gt insured. However, the actual rates charged per gt increased for 2008 as a result of the increase in the Hydra element of the overall reinsurance premium.

Figure 12: Structure of International Group excess of loss reinsurance programme at 20th February 2008



Pooling arrangements for 2008

For the 2008 policy year, the Club retention remained at $7 million. The structure of the Pool was otherwise unchanged.

War risk and terrorism cover

For the 2007 policy year, and continued for the 2008 policy year, the limit of the Group's excess war P&I insurance was set at $500 million. The supplementary Pooling for "Bio-Chem" claims to match the upper limit of the Pool at $50 million was also continued for the 2008 policy year. Details of the war risk P&I cover arrangements for the 2008 policy year were communicated to Members by circular 2/08 in February 2008.

Charterers' cover

For the 2008 policy year, the Club renewed its new reinsurance arrangements with the existing market. The reinsurance protection for this cover was arranged through the brokers Miller and Willis.

LOSS PREVENTION

At its meeting in January 2008 the Board received a detailed report on the loss prevention activities of the Club during the past year. The activities include maintaining the volume of content on the website (www.ukpandi.com), weekly loss prevention bulletins, ship inspections, the Pre-Employment Medical Exam or (PEME) programme, discreet investigations by the Signum department, distribution to new and existing Members for ships and other materials and an increased number of in-office risk audits conducted for individual Members. Due to demand, the Club has re-printed many of the series of Good-Practice-Bad-Practice posters for ship and during 2007 almost 20,000 such posters were sent to Members.

The UK Club website, like the internet portals of other businesses, is a vital avenue of communication externally. For reasons of speed and cost, the website is utilised as a conduit of information as much as possible, although limitations exist in respect of crew internet access. Therefore, many publications will still be physically printed and posted, such as the pocket guide to MARPOL compliance. The Club's website remains a leading source of loss prevention material in the industry.

Ship Inspections

The Ship Inspection Department, which started in 1990, supervises and co-ordinates the activities of the five ship inspectors and controls the condition surveys which are carried out (by independent surveyors) under the Club's Rules. The ship inspectors travel worldwide in order to carry out their tasks. Permanent bases are maintained in Rotterdam and Houston, Texas. All the ship inspectors are qualified QA Lead Assessors and are familiar with the requirements of the ISM Code.

The Managers employed five full time staff during 2007, the same as previous years, who surveyed ships. All five have nautical experience and are qualified as ISM auditors, amongst other qualifications. During the year, the inspectors visited 500 entered ships and an additional 182 ships were visited by third party inspectors. The newly formed Ship and Membership Quality sub-committee of the Board received detailed reports of the activities and findings.

The major Loss Prevention activity in 2007 was the publication of the package of books and DVD "Book it right, pack it tight". This was aimed at providing operational personnel with a quick reference and practical every-day guidance to the IMDG Code rules and also to increase the awareness of the risks involved in transporting hazardous goods in containers. The publication was developed for those engaged in all the stages of preparing dangerous goods for carried by sea from booking cargo to packing the container.

The guides were sent to all Members involved in the container trade for use in their own booking offices and to educate those in their packing chains.

The publication was complemented by a series of one day conferences in Hamburg, Singapore, Hong Kong, Seoul, Taipei and Shanghai attended by many of the Club's Members involved in the carriage of dangerous goods and the conferences in Far East locations run in conjunction with the TT Club, whose participation attracted the other parties involved in the transportation chain.

Goods being exported from China have been identified as representing a particularly high risk and the Club supported the Chinese authorities by allowing them to translate the books in to Chinese.

Also in 2007, and in conjunction with Lloyd's Register, the Club produced a pocket sized checklist to assist ships crews in dealing with Port State Control requirements relating to MARPOL and specifically the use of Oily Water Separators. This checklist which follows on from a publication produced in a similar format and again as a joint venture with Lloyd's Register on Port State Control requirements which was well received by the Club's membership. The early signs are that the second booklet will be similarly well received and plans are in place to produce a third booklet on life saving equipment.

In early 2008 the Club will release a DVD filmed in 2007 aimed at the LNG/LPG sector.

An activity which has developed significantly has been desk-based risk assessments carried out for individual fleets based on their claims record data. These assessments analyse Members' risk profiles and identify trends in the causation of claims in order to assist Members in reducing and eliminating the causes of claims in their own operations. Work is in hand to make some of these assessments automatically available to Members via the website.

PEME

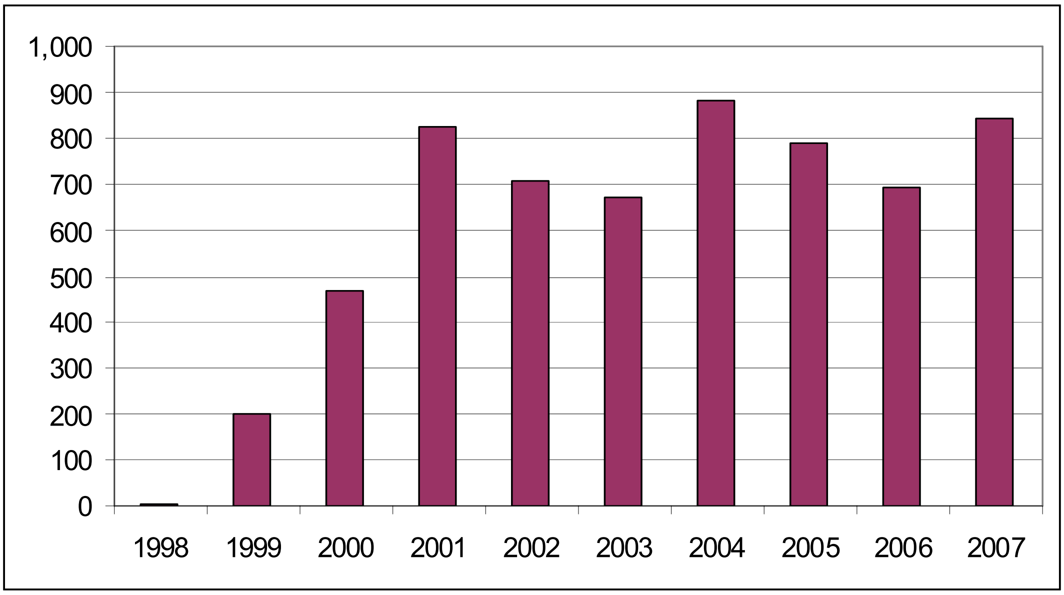
The Pre-Employment Medical Examination programme (PEME) currently has 40 accredited clinics in 17 countries worldwide and continues to ensure quality via a joint Club and independent consultant audit programme. The 2007 audit programme included all Indian clinics and those in Hungary, the Ukraine and Romania. In addition and in order to meet the requirements of Club Members, 11 prospective clinics were reviewed for suitability for the programme. The 2008 audit programme will include the Philippines, Croatia, the United States and South Africa.

Programme Objectives:

- Screen out medical conditions during pre-employment examinations
- Reduce the value and volume of illness and repatriation claims
- Continue delivering a proven value added service to Members
- Expand clinic network in response to Member needs

As of 1st January 2008, the total number of PEME examinations undertaken globally since inception of the programme in 1995 was 151,243, with 6,087 or 4.02 per cent of crew examined found unfit. PEME examinations have been performed on seamen of more than 50 nationalities with some 119,910 being accredited to Filipino seamen (some individual crew will have been examined more than once over the years). In calendar year 2007, 29,782 seamen underwent medical exams of which 844 were found unfit.

Figure 13: PEME exams – seamen found unfit post examination



The most frequent reasons for unfitness are hepatitis B (735), hearing defects (632), hypertension (536), Pulmonary Turberculosis (454), and abnormal liver function (403).

Finally, Signum, the Club's in-house team of investigators continued to investigate the causes of claims where criminal activity was suspected. During 2007 the department investigated 55 serious incidents, about half of which involved container cargo frauds against Members.

SERVICE

Quality Service and Operations

The Report and Accounts for the year ending February 2007 contained details of the Club's Service Commitment which set the benchmark for service provision to Members.

The Service Commitment has been publicised widely to Members during 2007 and is available on the Club's website. The Managers rely on established global systems and processes to deliver day-to-day service to Members and also the operational aspects of the Service Commitment. This is helpful because the regulatory and compliance framework in which the Club operates increasingly focuses on operational activities.

These systems and processes are ISO 9001:2000 certified and have been used in the compilation of the Club's Compliance Manual. In June 2007 the Managers underwent a re-certification audit to ensure compliance with the requirements of ISO 9001:2000. This certification was first gained in 2001 and is subject to re-certification every three years. The Managers' processes and systems were verified to be "*effective especially in respect to meeting customer and regulatory requirements*".

On-Line Services

The Club is committed to implementing web-based solutions to enhance service provision. The UK Club website receives an average of 63,000 page views per month, many of which are from registered Members accessing the dedicated services available on-line. During 2007, there was an average of 40,000 content updates per month.

In August 2007 the underwriting and renewal on-line services were enhanced to enable Members to make US tanker voyage additional premium declarations on-line. The new, easy-to-use facility allows Members to indicate which vessels, in which fleets, need to be declared for each quarter from the 2007 policy year onwards and to save an electronic copy of their submissions for their own records.

Value for Money

The Value for Money (VfM) programme was established in 2002 to develop best practice claims handling methodology and to improve the management of the Club's supplier network. It involved the development and implementation of a programme of measures including:

- Reviewing the work practices of all those involved in handling a claim;
- Developing partnering relationships with suppliers (in particular with UK and US law firms);
- Using technology to improve the claims process.

During 2007, the second stage of this programme was initiated. This involves two further steps. First, to develop relationship agreements with law firms in the UK. These agreements will standardise matters such as billing and professional indemnity arrangements which currently vary markedly between the firms. The VfM guidelines will also be updated to enable such relationship agreements to be concluded on appropriate terms. Second, the Managers' intention is to establish "Preferred Supplier" relationships with a limited number of UK firms, whereby the Managers would seek to obtain greater value from the relationship with such law firms. This relationship would not be an exclusive one and Members who wish to instruct non-preferred suppliers will continue to be able to do so, although the presumption will be that Preferred Supplier firms will be used whenever possible.

The Managers expect to finalise the content of the underlying relationship agreements and to agree the appointment of Preferred Suppliers in the UK during the course of 2008, following an extensive ongoing selection process.

LIABILITY ENVIRONMENT

At each Board meeting during the year the Directors received reports on developments in international law concerning maritime liabilities, including the drafting and implementation of instruments sponsored by the International Maritime Organisation (IMO); matters relating to directives and regulations proposed in the European Union (EU); and issues arising from existing legislation.

IMO

Bunkers Convention

The Board considered on several occasions the prospects for implementation of the Bunkers Convention, which would require all ships (other than CLC tankers carrying oil or residues), trading to States party to the Convention to carry insurance certificates to evidence financial responsibility for their potential liabilities under the Convention. The issue was made more urgent by ratification of the Bunkers Convention on 21st November 2007 by Sierra Leone, which will cause the Convention to come into force 12 months later.

Despite many representations to IMO on the subject, States had declined to include act of terrorism as an absolute defence to shipowners' liability under international conventions whether in force, like CLC, or due to enter into force once ratified by sufficient States (Athens Convention, Bunkers Convention, HNS Convention and, most recently, the Wreck Removal Convention). It was thus apparent that shipowners would be liable under these conventions for an incident caused by an act of terrorism if there was contributory fault on the part of the shipowner.

The P&I clubs have traditionally covered all of a shipowner's liability and are expected to provide the certificates for the Bunkers Convention. The Directors were therefore asked to consider whether the clubs should provide the certificates and agree to Pool liabilities thereunder and whether clubs should control the risks by providing war risks P&I cover from the ground up, instead of in excess of the ship's value as is currently the case, but otherwise subject to the same defences and exclusions as are currently set out in the excess war risks P&I cover provided by Group clubs.

Having regard to the needs of Members to have Bunkers certificates from late 2008, the Directors agreed that liabilities under the certificates should be included in the Pooling system and that the Club should provide the certificates.

However, with regard to ground up cover, the Board noted that it was uncertain how the clubs could deal with traditional defences and operational qualifications such as the designation of excluded or additional premium areas. It was also uncertain whether States would be prepared to make any concessions in respect of certification for the terrorism risk to reflect exclusions applicable to war risk policies, notwithstanding that they had agreed to do so in the special circumstances of the Athens Convention. The Directors therefore decided to defer making a decision on providing ground up cover until these uncertainties had been resolved.

HNS Convention

The Directors received a report on lack of progress in bringing into force the HNS Convention (Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea, 1996), arising from obstacles in identifying the "receiver" of HNS cargoes carried by sea as packaged goods and obstacles in implementing reporting procedures to ensure that receipts of HNS are reported to the HNS Fund and contributions are levied from the appropriate parties. The International Group had supported the HNS Convention and it was agreed that the IG should submit a paper with details of HNS incidents since 2002 to an informal meeting of States interested in overcoming the difficulties.

CLC

The Board received a report early in the year on the commencement of hearings in the criminal proceedings brought by the French government against various individuals and corporations in connection with the ERIKA spill.

Damage resulting from the ERIKA spill had far exceeded the maximum compensation available from the 1992 Fund of about $215 million. In order to allow the Fund to make full payments in respect of admissible claims of private claimants, both Total and the French government had each waived their potential claims against the Fund, but the French government now sought to recover its uncompensated costs from the parties named in the criminal proceedings. In addition, a number of civil parties had joined the criminal proceedings and were advancing claims outside the scope of the international compensation system.

By the end of the year, a first instance judgement had been issued holding several of the parties liable for criminal fines and civil damages. However, the judgement was expected to be appealed and the implications of the case for future pollution claims in CLC States remained unclear.

Other Conventions

The Board also received reports on the adoption of the IMO Nairobi Convention on Wreck Removal (not yet in force), and a report on the continuing progress of the drafting of an UNCITRAL (United Nations Commission on International Trade Law) convention to update the international regime for carriage of goods by sea.

EU

Draft European Union legislation

(a) Environmental Liability Directive

As usual, there was much legislative activity in the European Union for the Board to keep appraised of, beginning with the implementation of the Directive on 'Environmental liability with regard to the prevention and remedying of environmental damage'. This Directive, which establishes a framework of environmental liability based on the "polluters pay" principle, had imposed a deadline of 30th April 2007 for EU Member States to bring into force such laws and regulations as might be necessary to achieve its aims.

Some unfavourable aspects of the original draft of the Directive had been successfully opposed by the International Group in liaison with industry associations, but it remained a concern that environmental damage as defined in the Directive has a wider scope than pollution damage as defined in international legislation such as the CLC, HNS and Bunkers conventions - and that arbitrary means of assessing natural resource damage (such as the Contingency Valuation Methodology developed in the United States) could be allowed under the Directive for the purpose of quantifying environmental damage. It remains to be seen how justified these concerns prove to be in practice.

(b) Criminal sanctions Directive

Last year, this review reported on the efforts of an industry coalition led by Intertanko, Intercargo, the Greek Shipping Co-operation Committee, Lloyd's Register, and the International Salvage Union, to seek judicial review, by the European Court of Justice (ECJ), of the 'Directive on criminal sanctions for ship source pollution'. The coalition argued that the Directive obliged EU member States to breach obligations under international law and that the standard of liability under the Directive would breach the principle of legal certainty. The coalition was successful in demonstrating the need for judicial review and the case was heard before the ECJ during 2007. No decision had been issued by the court at the time of printing this review.

(c) EU 3rd Maritime Safety Package

The Directors received a report on the process by which the European institutions were developing the 3rd Maritime Safety Package, focusing in particular on proposals that were of concern from a liability standpoint, including a proposed directive on 'Civil liability and financial guarantees of ship owners' (CLD), and a proposed regulation on liability and compensation in relation to carriage of passengers.

The International Group, in co-operation with the International Chamber of Shipping and the European Community Shipowners' Association, had opposed elements of the CLD proposal that would undermine shipowners' limitation rights and had taken steps to improve the general understanding of liability issues amongst MEPs and those involved with the European Parliament's Transport and Tourism Committee.

The Managers recommended to the Board that there might be potential benefit in future for the IG in adopting a more pro-active approach in relation to some aspects of the CLD, such as a proposal for a financial guarantee to cover costs linked to abandoned seafarers.

Regarding the Passenger Liability Regulation, it was noted that the IG had been successful in seeking moderation of an advance payments provision, so that it was restricted to shipping incidents only.

Other International Group matters

Minimum Tanker Scale

The Directors received a report on the deletion, with effect from November 2007, of Clause 12 concerning minimum tanker rates, from the International Group Agreement (IGA). A review by the Group Managers had concluded that since 1998 underwriters had built up greater experience in assessing rates for tankers, and that special provisions were no longer necessary.

SCOPIC

A report was also made of proposed SCOPIC tariff revisions which had been negotiated between the International Salvage Union (ISU) and the International Group Salvage Sub-Committee. The Directors endorsed the new rates which were to be applied in respect of any incident occurring after 1st July 2007 and would remain in place until at least the end of 2010.

The Directors were advised that the ISU had continued to propose that salvors should benefit from environmental awards based upon notional pollution costs saved as a result of salvors' intervention. It remained unclear how such awards were to be justified in this proposal or how they were to be calculated and the Directors were reminded that SCOPIC had been developed and introduced to circumvent the uncertainties inherent in the subjective awards which had been made under Article 14 of the Salvage Convention.

APPENDIX 1

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	**2008**	**2007**
Open policy years			
2007	2	**(77,616)**	**-**
2006	2	**(63,518)**	**(78,287)**
2005	2	**(28,577)**	**(36,071)**
2004		**-**	**(77,360)**
Deficit on Open years		**(169,711)**	**(191,718)**
Closed policy years	3	**-**	**-**
Contingency Account	3	**288,440**	**337,434**
Catastrophe reserve	3	**49,518**	**49,490**
Reinsurance Retention reserve		**14,250**	**15,392**
US Oil Pollution AP reserve		**46,415**	**51,919**
Statutory reserve		**240**	**240**
Total surplus		**229,152**	**262,757**
Outstanding claims		**763,212**	**706,736**
		992,364	**969,493**

DEVELOPMENT OF OPEN POLICY YEARS

Amounts in $000	2007	2006	2005
Calls and premiums	378,372	357,203	352,368
Less reinsurance premiums	55,702	61,547	60,881
	322,670	295,656	291,487
Incurred claims:			
Paid	78,575	155,477	196,050
Known outstanding estimates	169,366	134,243	76,768
Unreported estimates	111,478	47,916	24,581
	359,419	337,636	297,399
Operating expenses	48,397	41,012	41,383
	407,816	378,648	338,782
Investment income	7,530	19,472	18,718
Deficit	(77,616)	(63,518)	(28,577)
Future investment income	6,000	4,000	1,000
Anticipated deficit	(71,616)	(59,518)	(27,577)

Notes:

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

(b) Included in the policy year funds is a deficit balances of $3.3 million for 2005, a surplus balance of $2.2 million for 2006 and a surplus of $1.8 million for 2007 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. The deficit on 2005 reflects the Association's contribution to other clubs' claims. There were no oil pollution claims in the 2006 and 2007 policy years.

(c) The approximate yield of a 10 per cent supplementary premium on the open policy years would be $30 million (2007), $29 million (2006) and $29 million (2005).

(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 $57 million (2007), $42 million, (2006), $9 million (2005) respectively.

(f) Future investment income reflects the investment income expected in respect of policy year funds.

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DEVELOPMENT OF CLOSED POLICY YEARS, CONTINGENCY ACCOUNT AND CATASTROPHE RESERVE

Amounts in $000	Closed policy years	Contingency Account	Catastrophe reserve
Balance at 20th February 2007	171,097	337,434	49,490
Investment income	574	27,594	3,873
Reinsurance premiums		(10,600)	(3,845)
Transfers on closure:			
Deficit on 2004 policy year		(61,620)	
Balance of 2004 policy year	107,450		
Premium adjustments	1,100		
Reserve transfer		(4,087)	
Claims paid net of reinsurance recoveries etc	(86,142)	4,500	
Transferred to Contingency account on review of estimated and unreported claims	4,781	(4,781)	
Balance at 20th February, 2008	198,860	288,440	49,518
Outstanding claims	198,860		
Net surplus (see Appendix 1)	-	288,440	49,518

Notes:

(a) On closure of the 2004 policy year, the sum of $16.1 million was transferred from the United States Oil Pollution AP reserve, and $0.4 million was transferred to 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 $45 million (2007 $39 million) including a forecast for unreported claims. The outstanding claims figure is shown net of recoveries from excess loss underwriters of $33 million (2007 $18 million), from the Pool of $48 million (2007 $23 million) and from other reinsurers of $16 million.

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

APPENDIX 4

TOTAL FUNDS AND LIABILITIES

Summary of funds available, estimated and forecast claims, and discounted value of future claims at 20th February 2008.

Amounts in $000	Funds available	Estimated claims and forecast of unreported claims	Discounted liability
Total Closed Policy Years	198,860	198,860	176,786
Open Policy Years			
2005	72,772	101,349	90,101
2006	118,640	182,159	162,485
2007	203,229	280,844	250,464
Reserves			
Reinsurance Retention reserve	14,250		
US Oil Pollution AP reserve	46,415		
Contingency Account	288,440		
Catastrophe reserve	49,518		
Statutory reserve	240		
Total funds	992,364	763,212	679,836

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 AND NOTICE OF MEETING

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 37 to 54. 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 and Canada. 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 2008 and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Moore Stephens & Butterfield
Chartered Accountants
2 Reid Street
Hamilton
Bermuda

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 ninth Annual General Meeting of the Members of the Association will be held at Island Shangri-La Hotel, Hong Kong on Monday, 27th October 2008 at 9.00 am for the following purposes:-

To receive the Directors' Report and Financial Statements for the year ended 20th February, 2008 and if they are approved, to adopt them.

To elect Directors.

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

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., 1st Floor Chevron House, 11 Church Street, Hamilton HM11, Bermuda not less than 12 hours before the holding of the meeting.

THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION (BERMUDA) LIMITED

Consolidated statement of operations for the year ended 20th February 2008

Amounts in $000	Note	**2008**	**2007**
Income			
Calls and premiums	4	386,034	358,419
Reinsurance premiums	5	(74,078)	(78,308)
		311,956	280,111
Expenditure			
Net claims incurred	6	361,413	264,841
Acquisition costs		23,718	20,815
Net operating expenses	7	23,118	20,314
		408,249	305,970
Operating deficit		(96,293)	(25,859)
Investment income	8	64,344	76,927
(Deficit) / surplus before taxation		(31,949)	51,068
Taxation	9	(1,655)	(5,371)
(Deficit) / surplus after taxation		(33,604)	45,697
Reserves at beginning of year		262,516	216,819
Reserves at end of year	18	228,912	262,516

The notes form an integral part of these financial statements

Consolidated Balance Sheet
at 20th February 2008

Amounts in $000	Note	**2008**	**2007**
ASSETS			
Investments	10	714,321	758,653
Cash balances	11	187,133	112,569
Amounts due from Members	14	79,220	71,441
Reinsurer's share of outstanding claims	16	238,636	211,795
Accrued interest		2,533	4,060
Sundry debtors	15	23,139	41,075
		1,244,982	1,199,593
LIABILITIES			
Gross outstanding claims	16	1,001,848	918,531
Creditors	17	13,982	18,306
		1,015,830	936,837
Reserves	18	228,912	262,516
Statutory Reserve		240	240
		229,152	262,756
		1,244,982	1,199,593

Directors

Mr

Mr

Mr
Thomas Miller (Bermuda) Ltd
Managers

Holding Company Balance Sheet
at 20th February, 2008

Amounts in $000	Note	**2008**	**2007**
ASSETS			
Investments	3	90,546	65,780
Cash balances		28,717	57,859
Amounts due from Members		71,888	71,441
Reinsurer's share of outstanding claims		920,190	850,374
Accrued interest		95	199
Sundry debtors		19,227	40,969
		1,130,663	1,086,622
LIABILITIES			
Amounts due to subsidiary company		104,207	118,561
Gross outstanding claims		981,147	918,531
Creditors		12,385	18,146
		1,097,739	1,055,238
Reserves		32,684	31,144
Statutory Reserve		240	240
		32,924	31,384
		1,130,663	1,086,622

Directors

Mr

Mr

Mr
Thomas Miller (Bermuda) Ltd
Managers

Consolidated Cash Flow Statement
at 20th February 2008

Amounts in $000	**2008**	**2007**
Operating Activities		
Calls and premiums received	**378,596**	362,226
Receipts from reinsurance recoveries	**37,192**	(43,291)
Interest and dividends received	**34,694**	28,810
	450,482	347,745
Claims Paid	**261,133**	201,989
Acquisition costs	**23,718**	20,815
Operating expenses paid	**26,375**	23,161
Reinsurance premiums paid	**73,152**	80,022
Pool claims paid	**63,335**	44,633
Taxation paid	**3,715**	3,459
	451,428	374,079
Cash outflow from operating activities	**(946)**	(26,334)
Investing Activities		
Purchase of investments	**(2,191,201)**	(1,803,814)
Sale of investments	**2,266,711**	1,914,140
Net cash inflow from investing activities	**75,510**	110,326
Net increase in cash and cash equivalents	**74,564**	83,992
Cash balances at beginning of year	**112,569**	28,577
Cash balances at end of year	**187,133**	112,569

NOTES TO THE FINANCIAL STATEMENTS

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 Canada 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 companies, International P&I Reinsurance Company Limited ("IPIR"), which is registered in the Isle of Man and United Kingdom Mutual Steam Ship Assurance (Europe) Limited ("UK Europe"). IPIR reinsures 90 per cent of the risks retained by the holding company. UK Europe recommenced underwriting on 20 February 2007. The holding company is the sole member of UK Europe which insures certain European Members of the holding company where a European insurer is required by statute.

The Association accounts for its investment in Hydra Insurance Company Limited ("Hydra") as a quasi-subsidiary. Hydra is a Bermudian segregated cell captive established by the International Group of P&I Clubs to reinsure part of the risk which Clubs that are party to the Pooling Agreement previously reinsured in the market. Under the terms of the company's byelaws and the governing instrument assets are segregated in separate cells in such a way that they can be used only to satisfy the liabilities of the 'owning' club. The results of the separate cell "owned" by the Association are consolidated within the group financial statements, with all inter-company transactions 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

On formally closing a policy year, an amount equivalent to the anticipated future investment income arising from funds attributable to that year is transferred into the policy year account from the Contingency account. This allows the policy year to close at the anticipated ultimate result. 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 allocated to or from the Contingency Account.

(f) Contingency Account

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 reinsurance contract with European Reinsurance Co. (see note 5). Any subsequent reinsurance recovery under the contract is transferred to the Account.

(g) Catastrophe reserve

The reserve 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 held 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 adjusted by such variables required to project the likely ultimate cost of claims. The principal variables for which adjustment is made include the impact of large losses, changes in the mix of business written, the effects of inflation and changes in the Associations processes which may accelerate or decelerate claims development or the recording of claims. The principal assumption underlying this approach is that future claims development will follow past experience.

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, for which there is an active market, 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 International P&I Reinsurance Company Limited is shown at cost. The investment in United Kingdom Mutual Steam Ship Assurance (Europe) Limited represents capital contributions to that club which, since the holding company is the sole member, is under the control and hence a subsidiary of the holding company.

Each share purchase was translated into US dollars on the date of purchase, with disclosure at cost in the consolidated financial statements.

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. Underwriting income is not taxable.

(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 of the Directors (except two 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.

Note 3 – Holding Company Investments

The results of the Association's subsidiaries are consolidated within the group financial statements.

The following details relate to the holding company balance sheet.

Amounts in $000	Equity holdings	**2008**	2007
Investments			
International P&I Reinsurance Company Limited	100%	**1,000**	1,000
Hydra Insurance Co. Ltd	100%	**10,573**	1,240
UK Mutual Steam Ship Association (Europe) Ltd	N/a	**15,000**	-
UK Club Private Trust Co. Ltd	100%	**12**	12
Balance at 20th February 2008		**26,585**	2,252
Government securities		**49,806**	46,972
Total listed investments		**49,806**	46,972
UCITs		**-**	1,308
Loans to subsidiary undertakings		**14,155**	15,248
		14,155	16,556
		90,546	65,780
Cost		**89,558**	64,415

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. The UK Club Private Trust Co Ltd in turn made a convertible loan to Thomas Miller Holdings Ltd with interest at 5 per cent per annum, with an option to convert into equity shares after five years at the Trust's discretion. An Investment Restructuring Agreement was signed on behalf of the Association on 22 April 2005 and approved by the Thomas Miller Holdings Ltd (TMH) shareholders at a Special General Meeting on 29 April 2005.

UK Mutual Steam Ship Association (Europe) Limited is a private unlimited company without share capital.

Note 4 – Calls and Premiums

Amounts in $000	**2008**	2007
Mutual		
Mutual premium	**303,956**	294,025
Return premiums	**(2,311)**	(1,834)
Release charges	**4,277**	988
	305,922	293,179
Less		
Movement in provision for bad debts	**-**	740
	-	740
	305,922	293,919
Fixed premium		
Chartered vessels	**57,913**	43,090
Owned vessels	**10,898**	10,215
US Oil Pollution	**11,301**	11,227
	80,112	64,532
Return premiums	**-**	(32)
	80,112	64,500
	386,034	358,419

Note 5 – Reinsurance Premiums

Amounts in $000	**2008**	2007
Market underwriters and other P&I associations	**55,715**	56,222
Other reinsurance arrangements	**10,600**	11,933
US Oil additional premiums	**7,763**	10,153
	74,078	78,308

Note 6 – Net claims incurred

Amounts in $000	**2008**	2007
Gross claims paid:		
Members' claims	**261,873**	180,715
Group's pooling arrangements	**63,335**	44,633
	325,208	225,348
Less reinsurance recoveries:		
Group's pooling arrangements	**13,465**	2,643
Market underwriters	**6,806**	(43,891)
Other P&I associations	**-**	324
	20,271	(40,924)
Net claims paid	**304,937**	266,272
Movement in provision for outstanding claims:		
Provision carried forward	**1,001,848**	918,531
Less: Provision brought forward	**918,531**	869,115
	83,317	49,416
Less: Movement in reinsurer's share of gross outstanding claims		
Provision carried forward	**238,636**	211,795
Less: Provision brought forward	**211,795**	160,948
	26,841	50,847
Net changes in provision for net outstanding claims	**56,476**	(1,431)
Net incurred claims	**361,413**	264,841

Note 7 - Operating Expenses

Amounts in $000	**2008**	2007
Management fee	**13,701**	13,003
Travel costs	**2,930**	2,969
Directors' fees	**681**	488
Printing and stationery	**491**	114
Communications	**354**	321
Promotions and seminars	**862**	530
Legal and financial	**2,381**	1,433
Strategy and planning	**207**	287
Auditors' fees	**624**	465
Japan branch	**52**	252
Ship inspection	**482**	105
Loss prevention	**353**	347
	23,118	20,314

Note 8 - Investment Income

Amounts in $000	**2008**	2007
Interest on fixed income securities	**22,855**	22,311
Bank deposit interest	**3,067**	1,548
Dividends receivable	**8,781**	5,540
Profit on sale of investments	**42,528**	69,009
Other investment income	**-**	1,343
	77,231	99,751
Unrealised losses on investments	**(11,623)**	(23,270)
Exchange gain	**(1,264)**	446
	64,344	76,927

Note 9 – Taxation

Amounts in $000	**2008**	2007
Taxation charge based on investment income in the current financial year	**(1,931)**	(2,308)
Adjustment in respect of prior periods	**276**	(3,063)
	(1,655)	(5,371)
(Deficit) / Surplus before taxation	**(31,949)**	51,068
Expected taxation charge at 30%	**9,585**	(15,320)
Underwriting result not subject to taxation	**(28,888)**	(7,758)
Portion of investment income not subject to taxation	**17,372**	20,770
Adjustment in respect of prior periods	**276**	(3,063)
Taxation charge	**(1,655)**	(5,371)

Note 10 – Investments

Amounts in $000	**2008**	2007
Listed Investments		
Fixed income securities	**114,608**	-
Government securities	**64,934**	356,720
Shares and other variable income securities	**13,095**	143,429
Investments in unit trusts	**109,850**	88,232
Total listed investments	**302,487**	588,381
Cost $272,213 (2007: $563,956)		
Other Investments		
Undertakings for Collective Investments of Transferable Securities (UCITS)	**391,929**	149,007
Thomas Miller Holdings Ltd (see note 3)	**19,877**	19,868
Hydra Insurance Co. Ltd	**20**	20
Open forward currency contracts	**8**	1,377
Total investments	**714,321**	758,653

The listed investments, which are available for sale, are quoted on major recognised international stock exchanges.

The Association's investment policy requires that, at the time of purchase, fixed interest and government securities have a credit rating of A or better. The market value of the these investments may be affected by changes in prevailing levels of interest rates and other factors and, at the balance sheet date, the investments have effective yields of between 1 and 7 per cent (2007: 1 and 7 per cent).

Open forward currency contracts represent 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 2008 using exchange rates prevailing at that date.

Note 11 - Cash Balances

Amounts in $000	**2008**	2007
Current and short term bank deposits	**187,133**	112,569

Note 12 - Cash and Investment Maturity Summary

Amounts in $000	**2008**	2007
Cash and investments	**901,454**	871,222

	2008 Per cent	2007 Per Cent
Cash, equities and interest bearing securities repayable within one year	**92.34**	67.95
Interest bearing securities repayable between one year and three years	**3.32**	10.43
Between three and seven years	**4.16**	7.43
Over seven years	**0.18**	14.19
	100.00	100.00

Note 13 - Cash and Investment Currency Exposure

	2008 Per cent	2007 Per Cent
Swiss franc	**0.09**	0.07
Sterling	**21.64**	17.22
Japanese yen	**2.09**	1.63
Euro	**16.97**	14.38
US dollar	**59.21**	66.70
	100.00	100.00

Note 14 - Amounts due from Members

Amounts in $000	**2008**	2007
Members' balances due	**79,220**	71,441

Note 15 - Sundry Debtors

Amounts in $000	**2008**	2007
Reinsurance and pool recoveries	**11,330**	28,251
Funds with representatives	**356**	1,421
Claims recoverable from Members and third parties	**8,901**	8,435
Prepayments and other debtors	**2,552**	2,968
	23,139	41,075

Note 16 - Outstanding Claims

Amounts in $000	**2008**	2007
Closed policy years	**198,860**	171,097
Open policy years		
2007	**280,844**	-
2006	**182,159**	267,850
2005	**101,349**	153,339
2004	**-**	114,450
	763,212	706,736
Gross outstanding claims		
Members' claims	**848,996**	773,531
Other Clubs' Pool claims	**152,852**	145,000
	1,001,848	918,531
Reinsurer's share of gross outstanding claims		
Group excess of loss reinsurance	**(57,219)**	(37,089)
Pool recoveries	**(71,417)**	(64,706)
Other reinsurers	**(110,000)**	(110,000)
	(238,636)	(211,795)
Net outstanding claims	**763,212**	706,736

The total of outstanding claims of $1,002 million (2007: $919 million) includes a forecast of unreported claims of $261 million (2007: $236 million) on open and closed policy years and an estimate of $38 million (2007: $42 million) for future claims management costs.

Note 17 – Creditors

Amounts in $000	**2008**	2007
Reinsurance Premiums	**6,965**	6,039
Members' balances	**416**	205
Taxation	**546**	2,476
Others	**6,055**	9,587
	13,982	18,307

Note 18 – Reserves

Amounts in $000	**2008**	2007
Open policy years		
2007	**(77,616)**	-
2006	**(63,518)**	(78,287)
2005	**(28,577)**	(36,071)
2004	**-**	(77,360)
	(169,711)	(191,718)
Contingency Account	**288,440**	337,434
Catastrophe reserve	**49,518**	49,490
US Oil Pollution AP reserve	**46,415**	51,918
Reinsurance Retention reserve	**14,250**	15,392
Statutory Reserve	**240**	240
	229,152	262,756

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 19 - 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 $41.8 million to cover its share of the increased Group exposure.

Note 20 - 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, 2008, the ratio of 9.46 per cent (2007: 9.27 per cent) has been calculated in accordance with the Schedule and the guideline issued by the International Group and is consistent with the relevant financial statements.

Note 21 - Related Party Transactions

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 of the Directors (except two 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.

Thomas Miller (Bermuda) Limited provides management services to the Association. This company is a subsidiary of Thomas Miller Holdings Limited in which the Association holds an investment.

MANAGERS AND OFFICER

Managers:	**Thomas Miller (Bermuda) Ltd**
Secretary of the Association:	**D.W.R. Hunter**

REGISTERED OFFICE AND BUSINESS ADDRESS OF THE ASSOCIATION

1st Floor Chevron House,
11 Church Street,
Hamilton HM11, Bermuda

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