



**Report
and
Financial Statements
2002**

Managers:



**MICHAEL ELSE
AND COMPANY LTD**



Report and Financial Statements for the year ended 31 December 2002

The Charterers Mutual Assurance Association Limited ("The Association") provides mutual insurance cover against the cost of the charterer of a ship being held liable for loss or damage to the vessel chartered, its cargo, or to third parties or their property. With effect from 1 January 1999, and in response to an increasing industry-wide demand from ship operators, cover was transferred to a new and enhanced Fixed Premium scheme, "The Charterers P&I Club", underwritten by Lloyd's underwriters and administered by Michael Else and Company Limited exactly as before, but under the terms of a binding authority. The Association consequently discontinued underwriting new risks on a mutual basis with effect from 31 December 1998 and will run-off its existing claims liabilities over the course of the next few years. The run-off will continue to be managed in London by Michael Else and Company Limited.

The Association is registered in England and Wales and is authorised by the Financial Services Authority in accordance with the Financial Services and Markets Act 2000.

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Directors, Managers, Secretary and Registered Office

Directors

Chairman: K E Sundberg (Danish), *Nielsen Shipping Limited*

R T Duggan (Australian), *Austral Oil Services Limited*

P J Vogt, *Vogt & Maguire Limited*

Managers

Michael Else and Company Limited

Secretary and Registered Office

Michael Else and Company Limited
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E-mail: underwriting@else.co.uk

Web: www.else.co.uk

Registered number 1874472

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements of The Charterers Mutual Assurance Association Limited ("the Association") for the year ended 31 December 2002.

Constitution

The Association is a company limited by guarantee and does not have a share capital. The liability of each member under their guarantee is limited to US\$8.

The members are liable for their rateable proportion of any deficiency resulting from an excess of claims and expenses over contributions. Any surplus may be retained at the discretion of the directors and applied for the purposes of the Association, or be returned to the members.

Principal activity and business review

The principal activity of the Association has been the provision of mutual insurance to ship charterers, in two classes:

Class I: Defence (legal costs and expenses)

Class II: Protection and indemnity

In response to an increasing industry-wide demand from ship operators for fixed premium P&I cover, a decision was taken in 1998 to "demutualise" the Association. The Managers proposed a scheme which would allow for the creation of a new fixed premium vehicle, "The Charterers P&I Club", with effect from 1 January 1999, combining the benefits of the service historically provided by Michael Else and Company Limited (MECO) as mutual managers with the security of conventional insurance capital provided by underwriters at Lloyd's. The Association therefore ceased underwriting new mutual risks on 31 December 1998, at which stage all existing mutual members were offered the opportunity to purchase cover from the new vehicle. The Association will run-off its existing claims liabilities over the course of the next few years.

The following resolution was approved unanimously at an Extraordinary General Meeting of the Members on 15 December 1998:

"That the Company cease underwriting new business from 31 December 1998 and to entitle the Directors to utilise the reserves of the Company as at 31 December 1998 to effect insurance run-off cover and to arrange insurance cover for the benefit of members."

Three contracts have been negotiated between the Association, MECO and Lloyd's Underwriters. These contracts provide for:

- A Run-off reinsurance policy, designed to protect the Association and its Members against any possible future deterioration of the claims estimates as at 31 December 1998.
- Cover in respect of any future unforecast supplementary call liabilities of Members who have transferred, under two year policies, to the new fixed premium facility, "The Charterers P&I Club".
- A "Binder" contract, under which MECO have contracted with Lloyd's underwriters to manage the activities of the Charterers P&I Club in a role similar to that which they have historically performed as Managers to the Association.

Directors' Report *continued*

After settlement of the 22.5% supplementary calls charged and / or approved in respect of the 1996, 1997 and 1998 policy years, members who have transferred to The Charterers P&I Club, and whose accounts are up to date, will have no further liability to supplementary calls under the mutual system, any further liabilities on these open years being covered by the run-off reinsurance and supplementary call cover provided by Lloyd's underwriters. The contracts provide for an additional 10% of the 1999 Charterers P&I Club premiums becoming payable by each assured should underwriters' losses under the run-off and unforecast supplementary call protection policy exceed \$4 million but the likelihood of such a loss arising is considered remote.

The premium charge for 2002, due from Lloyd's underwriters, in respect of the run-off and supplementary call cover is \$954,320 (2001: Credit of \$410,582). This is equivalent to the profit for the financial year of the Association prior to accounting for the contract.

The run-off of the Association's liabilities and recovery of outstanding assets has proceeded well during the year, and is in line with forecast.

Results

As explained above the free reserves of the Association at 31 December 1998, as adjusted for subsequent results, have been used to purchase insurance run-off and supplementary call cover for the benefit of members. As such any movement in the operating results each year is offset by a corresponding movement in the premiums and recoveries due to/from reinsurers. The Association therefore made neither profit nor loss for the financial year, and carries forward a nil balance on reserves at 31 December 2002.

Reinsurance

The reinsurance programmes for policy years up to and including 1998, all placed with Lloyd's, members of the Institute of London Underwriters, Munich Re and Centre Solutions (commuted November 2002), will continue to provide the Association with cover throughout the run-off period.

Supplementary calls

The supplementary calls of 22.5% on classes I and II for the 1996, 1997 and 1998 policy years were charged in December 1998, June 1999 and December 1999 respectively. All three years remain open but the directors are presently estimating a nil closing call for these years. Members who have transferred across to the new fixed premium facility and whose accounts are up to date also benefit from supplementary call cover in respect of their exposure to further calls on these years.

Directors' Report *continued*

Directors

The present directors of the Association are shown on page 2.

Mr R T Duggan retires in accordance with Article 56 of the Articles of Association and offers himself for re-election. The directors are ex-officio members of the Association and are individually liable for their guarantee amounts of US\$8.

Statement of directors' responsibilities

The directors are required by law to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Association and its surplus or deficiency for the year. In preparing these statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Association will continue in business.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Association, and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Managers

The managers of the Association throughout the year were Michael Else and Company Limited.

Auditors

A resolution to re-appoint Macnair Mason as auditors will be proposed at the forthcoming annual general meeting.

By order of the board

For Michael Else & Company Ltd



13th March 2003

Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE CHARTERERS MUTUAL ASSURANCE ASSOCIATION LIMITED ("THE ASSOCIATION")

We have audited the financial statements on pages 7 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 11.

This report is made solely to the association's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body, for our audit work, for this report, or the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described on page 5, the association's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

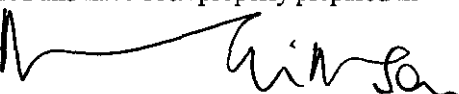
Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in these financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the associations affairs as at 31 December 2002 and of the association's result for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



**Chartered Accountants
And Registered Auditors**

John Stow House
18 Bevis Marks
London
EC3A 7ED

Date: 13 March 2003

The Charterers Mutual Assurance Association Limited

Profit and Loss Account for the year ended 31 December 2002
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	Notes	2002 US\$	2001 US\$
<i>Discontinued operations</i>			
<u>TECHNICAL ACCOUNT - GENERAL BUSINESS</u>			
Earned calls, net of reinsurance			
Gross calls written	2	57,973	(180,609)
Outward reinsurance premiums (charge)/ credit	3	(855,665)	217,339
Outward run-off reinsurance premiums (charge)/ credit	12	(954,320)	410,582
Total net calls /written earned calls, net of reinsurance		(1,752,012)	447,312
Investment income	5	18,267	18,410
TOTAL TECHNICAL INCOME		(1,733,745)	465,722
Claims incurred, net of reinsurance			
Claims paid - gross		1,885,172	3,369,025
Claims paid - reinsurers' share		(8,186,657)	(2,520,854)
Claims paid - net of reinsurance		(6,301,485)	848,171
Provision for claims:	4		
Change in provision - gross		(1,499,639)	(1,136,864)
Change in provision - reinsurers' share		5,891,102	489,204
Net change in provision for claims		4,391,463	(647,660)
Claims incurred net of reinsurance		(1,910,022)	200,511
Net operating expenses	6	173,937	263,963
TOTAL TECHNICAL CHARGES		(1,736,085)	464,474
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		2,340	1,248
<u>NON TECHNICAL ACCOUNT</u>			
Balance on the general business technical account and profit on ordinary activities before tax		2,340	1,248
Tax on profit on ordinary activities	7	(2,340)	(1,248)
RESULT FOR THE FINANCIAL YEAR		-	-

The Association has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

<p align="center">Balance Sheet as at 31 December 2002</p>
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	Note	2002 US\$	2001 US\$
<u>ASSETS</u>			
Reinsurers' share of technical provisions			
Claims outstanding	3, 4	<u>4,435,101</u>	<u>10,326,203</u>
Debtors			
Debtors arising out of direct insurance operations:			
Due from members		22,789	188,843
Debtors arising out of reinsurance operations:			
Due from reinsurers		4,186,769	3,387,437
Other debtors		<u>68,296</u>	<u>33,140</u>
Total debtors		<u>4,277,854</u>	<u>3,609,420</u>
Other assets			
Cash at bank and in hand		<u>1,319,977</u>	<u>87,502</u>
TOTAL ASSETS			
		<u>10,032,932</u>	<u>14,023,125</u>

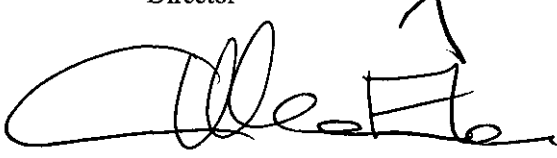
<p align="center">Balance Sheet as at 31 December 2002 <i>continued</i></p>
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	Notes	2002 US\$	2001 US\$
<u>LIABILITIES</u>			
Reserves			
Profit and loss account	10	-	-
Technical provisions			
Claims outstanding	4,8	8,959,451	10,459,090
Creditors	9		
Creditors arising out of direct insurance operations: Due to intermediaries		205,146	205,536
Creditors arising out of reinsurance operations: Due to reinsurers		-	3,267,588
Other creditors including taxation and social security		800,801	83,678
Total creditors		1,005,947	3,556,802
Accruals and deferred income		67,534	7,233
TOTAL LIABILITIES		10,032,932	14,023,125

The financial statements were approved on

13th March 2003.


 Director


 for Michael Else & Company Ltd

<p align="center">The Charterers Mutual Assurance Association Limited</p>
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<p style="text-align: center;">Cash Flow Statement for the year ended 31 December 2002</p>

	Note	2002 US\$	2001 US\$
Net cash inflow/ (outflow) from operating activities <i>(below)</i>		1,217,613	(199,602)
Interest received		18,267	18,410
Taxation			
Corporation tax paid		(3,405)	(3,263)
		<u>1,232,475</u>	<u>(184,455)</u>
Cash flows were invested as follows:			
Increase/ (decrease) in cash holdings	11	<u>1,232,475</u>	<u>(184,455)</u>

Reconciliation of operating profit to net cash outflow

Operating activities:

Profit on ordinary activities before tax	2,340	1,248
Investment income	(18,267)	(18,410)
Effect of foreign exchange rate changes	61,366	(4,035)
Decrease in reinsurers' share of technical provisions	5,891,102	489,204
(Increase)/ decrease in insurance and reinsurance debtors	(633,278)	1,053,428
(Increase)/ decrease in other debtors and prepayments	(35,156)	124,659
Decrease in technical provisions	(1,499,639)	(1,136,864)
Decrease in insurance and reinsurance creditors	(3,267,978)	(709,005)
Increase in accruals and other creditors	717,123	173
Net cash inflow/ (outflow) from operating activities	<u>1,217,613</u>	<u>(199,602)</u>

Reconciliation of net cash outflow to movement in net debt

No reconciliation has been presented as the Association has no debt.

Notes to the Financial Statements for the year ended 31 December 2002

1 Accounting policies

Financial statements

The financial statements are prepared on the basis of the accounting policies set out below and in compliance with the special provisions relating to insurance companies of section 255 and schedule 9A of the Companies Act 1985. The annual basis of accounting has been applied to the financial statements, which are expressed in United States Dollars.

The financial statements comply with applicable accounting standards. In addition, the Association has adopted all material recommendations in the guidance on accounting for insurance business issued by the Association of British Insurers in December 1998.

Claims

The charge in the profit and loss account comprises claims paid during the year, together with provisions for claims notified but not agreed and claims incurred but not reported. The provision for claims outstanding includes an allowance for future claims handling costs.

Reinsurance

Excess of loss and stop loss reinsurance premiums and recoveries represent amounts payable to and recoverable from reinsuring underwriters for calls and claims reported in the profit and loss account.

Run-off reinsurance

Run-off reinsurance represents the premiums payable or receivable in respect of the run-off reinsurance and supplementary call cover entered into by the Association with Lloyd's underwriters.

Interest

Interest is accounted for on the accruals basis. It is attributed directly to the technical account, since the Association's entire assets are available for the settlement of future claims.

Operating expenses

Operating expenses comprise all expenses paid and accrued for the year.

Unearned calls

Unearned calls represent written calls relating to future accounting periods.

Deferred acquisition costs

Deferred acquisition costs represent incurred brokerage and managers' remuneration relating to future accounting periods.

Rates of exchange

Assets and liabilities are translated into United States Dollars at the rates of exchange ruling at the balance sheet date. Revenue transactions are converted at average monthly rates during the year and any exchange gain or losses are dealt with in the profit and loss account.

<p align="center">Notes to the Financial Statements for the year ended 31 December 2002 <i>continued</i></p>

2 Gross calls written

Gross calls represent ongoing adjustments to advance, supplementary and release calls raised in previous years (1998 - advance call for the 1998 policy year, the additional supplementary calls on the 1996 and 1997 policy years over and above the figures previously estimated and the 22.5% supplementary call on the 1998 policy year).

3 Reinsurance

During the year the association commuted the multi-year stop loss reinsurance contract that covered policy years 1994 to 1998 inclusive with Centre Solutions, a subsidiary of Zurich Insurance. In return for transferring the risk covered under this contract to the association (ultimately to a Lloyds underwriter- see note 12), the balance in commutation fund of \$9,170,423 was transferred to the association.

4 Provision for claims outstanding

	2002	2001
	US\$	US\$
Claims outstanding - gross amount:		
Amount carried forward	8,959,451	10,459,090
Amount brought forward	10,459,090	11,595,954
	<hr/>	<hr/>
Net Credit to Profit & Loss	(1,499,639)	(1,136,864)
Claims outstanding - reinsurers' share:		
Amount carried forward	4,435,101	10,326,203
Amount brought forward	10,326,203	10,815,407
	<hr/>	<hr/>
Net Charge to Profit & Loss	5,891,102	489,204
	<hr/>	<hr/>
Net Charge/ (Credit) to Profit & Loss	4,391,463	(647,660)
	<hr/>	<hr/>

5 Investment income

	2002	2001
	US\$	US\$
Income from other investments:		
Bank and deposit interest receivable	18,267	18,410
	<hr/>	<hr/>

<p align="center">Notes to the Financial Statements for the year ended 31 December 2002 <i>continued</i></p>

6 Net operating expenses

Net operating expenses comprise the direct costs of running the Association, as follows:

	2002 US\$	2001 US\$
Total Brokerage	27	3,174
Total Managers' remuneration	-	153,500
Total acquisition costs	7,778	156,674
Administrative expenses	166,159	107,289
	<u>173,937</u>	<u>263,963</u>

Michael Else and Company Limited, as Manager, is a related party of the Association. The related party disclosures required by the Companies Act 1985 are set out above and in the Balance Sheet on page 9 and 10.

Administrative expenses include:

	2002 US\$	2001 US\$
Directors' emoluments	38,622	8,982
Auditors' remuneration - audit services	11,265	5,973
	<u> </u>	<u> </u>

7 Taxation

	2002 US\$	2001 US\$
Corporation tax at 16% (2001 - 16%) on UK investment income	1,826	2,892
Prior year under/ (over)-provision	514	(1,644)
	<u>2,340</u>	<u>1,248</u>

8 Claims outstanding

The provision for claims outstanding is available to meet claims reported but not agreed and claims incurred but not yet reported. Because claims can be subject to prolonged delays as to notification and settlement, it is not always possible to quantify with any certainty the value of claims outstanding at the balance sheet date. The directors and managers have nevertheless estimated the provisions using the latest possible information and after taking account of historical trends.

<p align="center">Notes to the Financial Statements for the year ended 31 December 2002 <i>continued</i></p>

9 Creditors

All creditors are payable within one year.

10 Movements in members' funds: Profit and loss account

There was no movement in the members Profit and loss account during the year (2001: Nil).

11 Cash flow statement

Movement in cash and portfolio investments

	2002	2001
	US\$	US\$
Cash at bank and in hand at 1 January	87,502	272,234
Cash flow	1,232,475	(184,455)
Effect of foreign exchange rate changes	-	(277)
Cash at bank and in hand at 31 December	<u>1,319,977</u>	<u>87,502</u>

12 Run-off reinsurance

The 2002 premium charge of \$954,320 (2001 credit: \$410,582) is in respect of the run-off reinsurance and supplementary call cover arranged through Lloyd's underwriters. The credit is equivalent to the loss for the financial year prior to accounting for this contract.