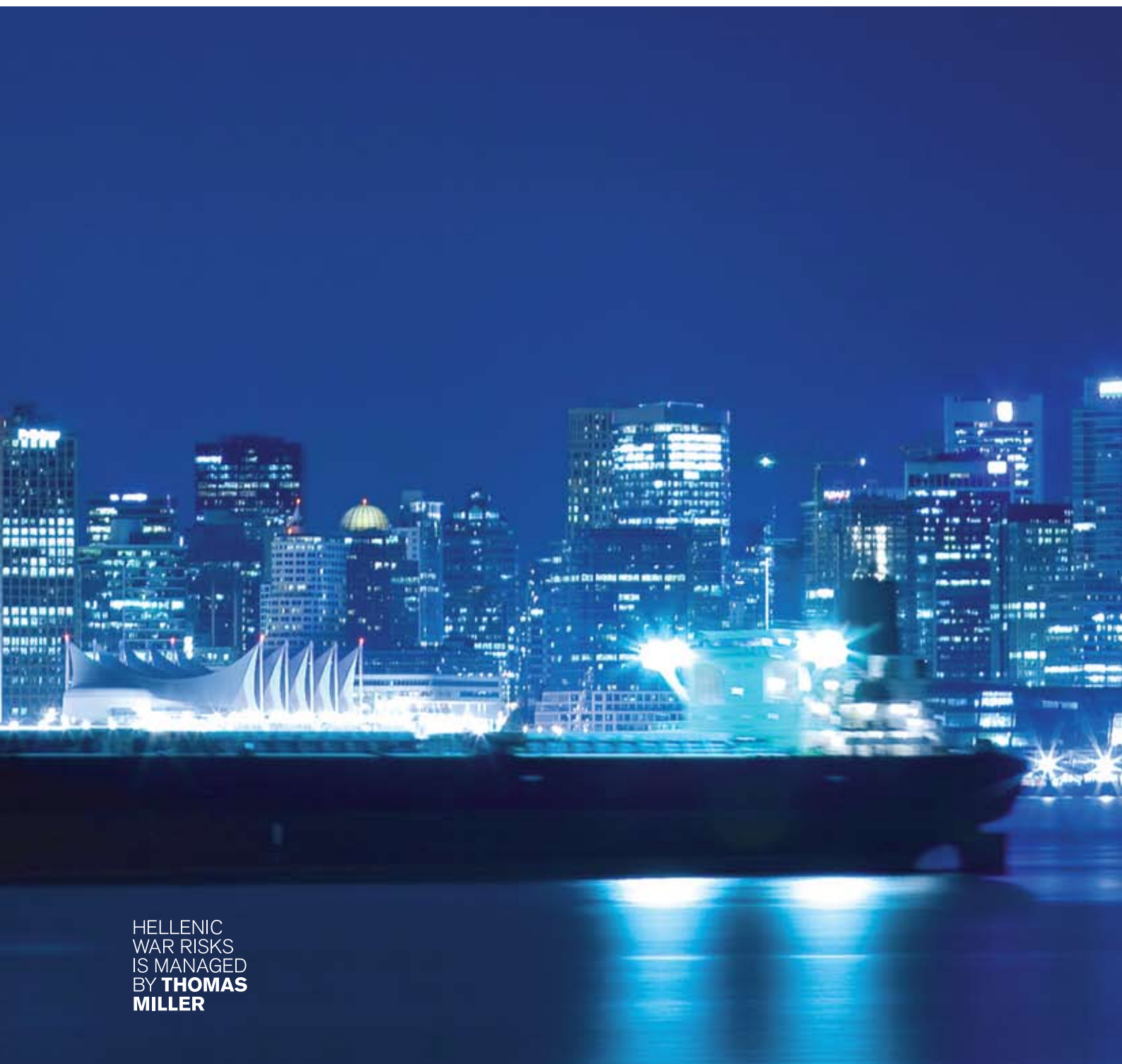


Directors' Report and Consolidated Financial Statements

For the year ended 31 December 2008



The Hellenic War Risks Club is a mutual organisation, run for and on behalf of its Members. Our mutual focus sets us apart. It means that Members' needs always take priority. We focus exclusively on war risks. We look at the market and approach cover from a specialist, war risk perspective. Specialist, mutual war risks – a combination that is second to none.

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Notice of Meeting

NOTICE IS HEREBY GIVEN that the Fortieth Annual General Meeting of the Members of the Association will be held at the Grande Bretagne Hotel, Constitution Square, 105 63 Athens at 10.00am on 15 September 2009 for the following purposes:

- To approve and adopt the Directors' Report and the Consolidated Financial Statements for the year ended 31 December 2008.
- To elect Directors.
- To reappoint the Auditors and authorise the Directors to fix their remuneration.
- To approve and adopt amendments to the Rules and Bye-Laws of the Association.
- To transact any other business of an Ordinary General Meeting.

By Order of the Board.

Thomas Miller (Isle of Man) Limited
Assistant Secretary
27 April 2009

Directors

J M Lyras (Chairman) (resigned 15 September 2008)

M D Chandris (Deputy Chairman) (elected Chairman 15 September 2008)

M G Pateras (Deputy Chairman)

G S Andreadis

J A Angelicoussis

J C Astwood (resigned 15 September 2008)

S J Fafalios

G J Goulandris

P J Goulandris

P Laskaridis

A T Lemos

M C Lemos

M T Los

M F Lykiardopulo

Mrs M E Marcantonaki

P S Panagopoulos

G D Pateras

S M Polemis

Mrs K Siggins

T E Veniamis

Alternate Directors

J C Lyras (resigned 15 September 2008)

Directors' Report

The Directors have pleasure in presenting their Report and the Consolidated Financial Statements of Hellenic Mutual War Risks Association (Bermuda) Limited (the "Association") for the year ended 31 December 2008.

The Principal Activity

The principal activity of the Association continued to be the insurance of Greek owned merchant ships against war risks.

Directors

The current Directors of the Association are shown on page 3.

Mr J M Lyras retired from the Board at the Annual General Meeting, having served as a Director for 28 years and as Chairman since 2003. The Directors wish to record their appreciation of Mr Lyras' service and commitment to the Association and to the membership. They particularly wish to record their thanks for his considerable contribution to the Association as Chairman.

In accordance with Bye-Law 6.4.1, Mr J C Astwood retired at the Annual General Meeting. The Directors wish to thank him for his contribution to the affairs of the Association.

In accordance with Bye-Law 6.4.2, Messrs S J Fafalios, P J Goulandris, M T Los, M G Pateras, G J Goulandris and Mrs M E Marcantonaki retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Contributions and Premiums

The underwriting income for the year amounted to US\$24,673,000, of which 26% (US\$6,481,000) represented income from Advance Contributions and 74% (US\$18,192,000) represented income from Additional Premiums. The corresponding figures for underwriting income in the 2007 and 2006 financial years were US\$15,809,000 and US\$17,381,000 respectively.

Contingent Liability

The Association remains involved in litigation in relation to the loss of the DEMETRA BEAUTY in the Gulf of Oman in January 1991 as well as litigation in relation to damage sustained by the ATHENA at Trincomalee in May 1997.

There was no material change as regards the DEMETRA BEAUTY during 2008. The Association continues defending various claims in Greece, as it is considered the Association is not liable to pay damages for those claims.

There were further significant developments during the year as regards the ATHENA, which has involved litigation in Greece, London and the US. In August, attorneys acting for the Association arrested the ATHENA in the US to enforce awards and judgments obtained in respect of costs the Association incurred successfully defending claims brought by the Owners. The Owners provided a bond for US\$1.7 million, inclusive of interest and costs, to lift the arrest and steps are now being taken to enforce payment against the bond. In 2007, the Owners conceded all outstanding points in the London arbitration. These concessions have the effect of preventing them from pursuing further their existing claims (or any other claims) against the Association in Greece or New York.

Investments

The Association's Investment Fund increased to US\$49,544,000 at 31 December 2008 (2007: US\$47,507,000). US\$31,778,000 was held in cash or money market instruments, US\$6,931,000 was invested in short term European and United States' short term government bonds, US\$8,324,000 was invested in absolute return funds and US\$2,511,000 was invested in North American equities.

Reserves

The balance of the Association's funds as at 31 December 2008, including the Statutory Reserve Fund of US\$240,000, stood at US\$46,628,000.

Directors' Report (continued)

Risk Management

The Association is exposed to financial risk through its assets and liabilities. The most significant risks are market risk, credit risk, insurance risk and reinsurance risk. The Association has policies and procedures in place to manage these risks.

Market risk is the risk of changes in the financial markets affecting the value of the Association's investments. It is managed by the Association's investment policy, which is monitored by means of reports from the Investment Managers to the Directors at each Board meeting.

Credit risk is the risk of losses caused by other parties failing, in whole or in part, to meet obligations to the Association. Debtor exposure is mitigated because it is widely spread across the membership. This exposure is monitored by means of twice yearly reports from the Managers to the Board and it is the Association's policy not to confirm renewal to any Member with amounts overdue.

Insurance risk is associated with claims on the Association. Exposure is primarily mitigated by a strategy of risk transfer through the Association's reinsurance programme. The Association's underwriting policy, which the Board reviews at least once a year, is also used to manage this risk.

Reinsurance risk is the risk of the Association's reinsurers being unable to meet their obligations. This risk is mitigated by placing reinsurance only with 'A' rated underwriters and by ensuring that no single underwriter carries more than a 10% line. The Board reviews reinsurance annually before renewal.

Directors' Meetings

The Directors met three times during 2008: in Geneva on 19 May, in Athens on 15 September and in Paris on 24 November.

At every meeting, the Directors reviewed the total value of the ships insured by the Association, as well as the Association's financial position and reports from the Investment Managers on the investment of the Association's funds. They considered and reviewed changes in Additional Premium ("AP") Areas, with particular reference to developments in Georgia, the Gulf of Aden, the Indian Ocean and Nigeria. The Directors also considered a number of claims, including those on the ATHENA and DEMETRA BEAUTY referred to elsewhere in this report.

During the year, the Directors also considered a report on the 2008 renewal and various issues relating to marketing of the Association.

At their November meeting, the Directors considered the renewal of the Association's reinsurance programme, as well as the rates and terms to be applied for 2009.

AP Areas

As at 1 January 2009, the AP Areas pursuant to Rule 15 were as follows:

Africa: Djibouti, Ivory Coast, Nigeria, Somalia and Somalia / Yemen / Gulf of Aden Transits;

Europe: Georgia;

Asia: the Southern Gulf Coast of Thailand, between and including Songkhla and Narathiwat, and Sri Lanka;

Indonesia / Malaysia: Ambon (Seram), Balikpapan (South East Borneo), North East Coast of Borneo, between and including Kudat and Tarakan, Jakarta, Poso (Sulawesi) and Sumatera (Sumatra), but only the North Eastern coast between 5° 40' N and 0° 48' N;

Middle East: Iraq, Israel, Lebanon, Saudi Arabia, Yemen and Gulf of Aden Transits; and

Philippines: Southern coast of Mindanao, between and including Polloc Harbour and Mati, Sulu Archipelago Transits and Sulu Archipelago Port Calls including Jolo.

The AP Areas, as well as the parameters for the Sulu Archipelago, Somalia, Gulf of Aden and Yemen (including Transits of all four Areas) are described in detail in the Appendix to Circular C7/2008, which can be read on and downloaded from the Association's website.

Members' attention is also drawn to the terms of Rule 25, which deal exclusively with AP Areas. Members are required to give written notice before a ship enters any AP Area. If notice is not given, the ship has no cover while in the AP Area.

Directors' Report (continued)

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Report of the Auditors, set out on page 7, is made for the purpose of clarifying for Members the respective responsibilities of the Directors and the Auditors in the preparation of the Consolidated Financial Statements.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Association as at 31 December 2008 and of the surplus of the Association for the year then ended. In the preparation of these financial statements, the Directors are required to ensure that they:

- 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 Consolidated Financial Statements;
- prepare the Consolidated Financial Statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business;
- develop internal controls over the financial reporting process to provide reasonable assurance that relevant and reliable financial information is produced; and
- oversee management's performance of its financial reporting responsibilities.

The Directors fulfil these responsibilities by reviewing financial information prepared by management and discussing relevant matters with management and the Association's external auditors.

The Directors are responsible for the keeping of 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 Consolidated Financial Statements comply with regulatory requirements. They are also responsible for safeguarding the assets of the Association and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Messrs Moore Stephens & Butterfield, the Association's Auditors, are willing to continue in office. A resolution to reappoint them and to authorise the Directors to determine their remuneration will be submitted to the forthcoming Annual General Meeting.

Website

The Report and Consolidated Financial Statements may also be read and downloaded from the Association's website at www.hellenicwarrisks.com.

D W R Hunter
Secretary
27 April 2009

Independent Auditors' Report to the Members of Hellenic Mutual War Risks Association (Bermuda) Limited

We have audited the consolidated financial statements of Hellenic War Risks Association (Bermuda) Limited, consisting of the consolidated balance sheet as at 31 December 2008 and the consolidated statements of operations and cash flows for the year then ended. 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.

This report is made solely to the Association's members, as a body. 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 for the opinions we have formed.

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 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 31 December 2008 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Moore Stephens & Butterfield
Chartered Accountants
Hamilton, Bermuda
April 18 2009

Consolidated Statement of Operations

For the year ended 31 December 2008

	Note	2008 US\$'000	2007 US\$'000
Income			
Contributions and premiums	3	24,673	15,809
Reinsurance premiums	4	(17,309)	(11,582)
		7,364	4,227
Expenditure			
Incurred claims	5	(2)	-
Acquisition costs		(402)	(292)
Operating expenses	6	(3,925)	(3,786)
Exchange gains / (losses)	7	63	(62)
		(4,266)	(4,140)
Operating surplus		3,098	87
Investment return	8	(3,873)	2,819
		(775)	2,906
(Deficit) / Surplus for the year before income taxes			
Income taxes		(26)	(20)
		(801)	2,886
(Deficit) / Surplus for the year before non-controlling interests			
Non-controlling interests		(11)	(5)
		(812)	2,881
Reserves at beginning of year		47,074	44,193
Reserves at end of year	16	46,262	47,074

The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 US\$'000	2007 US\$'000
Assets			
Investments	9 and 12	17,766	33,277
Reinsurance recoveries on outstanding claims	10	6,093	4,619
Cash balances	12	31,778	14,230
Sundry debtors	13	5,019	3,592
Amounts due from Members	14	6,357	3,508
Accrued interest		32	35
Land & buildings		423	334
Furniture & fittings		18	14
Capitalised formation expenses		2	4
		67,488	59,613
Liabilities			
Outstanding claims	10	(6,343)	(4,869)
Creditors	15	(13,820)	(6,698)
Tax and social security contributions		(29)	(23)
Sundry long-term liabilities		(20)	(16)
		(20,212)	(11,606)
Non controlling interests		(648)	(619)
Total net assets		46,628	47,388
Representing			
Capital reserve		73	73
Statutory reserve		240	240
Revaluation reserve		53	1
General reserve	16	46,262	47,074
Total funds		46,628	47,388

The accompanying notes form an integral part of these Consolidated Financial Statements.

Directors M D Chandris, S J Fafalios

Managers Thomas Miller (Bermuda) Ltd. P Donnellan

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 US\$'000	2007 US\$'000
Cash flows from operating activities		
(Deficit) / surplus for the year	(801)	2,886
Adjustments for		
Loss / (gain) on sale of investments	14	(444)
Unrealised loss / (gain) on investment valuations	4,734	(668)
Depreciation and amortisation	10	11
Future income tax	26	20
Changes in non-cash working capital		
Increase / (decrease) in reinsurance recoveries on outstanding claims	(1,474)	1,531
Increase / (decrease) in sundry debtors	(1,427)	143
Decrease in accrued interest	3	99
Increase in amounts due from Members	(2,849)	(1,669)
Increase / (decrease) in outstanding claims	1,474	(1,531)
Increase in creditors	7,132	2,502
Cash flows from operating activities	6,842	2,880
Cash flows from / (used in) investing activities		
Purchase of fixed assets	(100)	(8)
Purchase of investments	(27,625)	(19,717)
Proceeds on sale on investments	38,387	14,232
Cash flows (used in)/from investing activities	10,662	(5,493)
Foreign currency translation	44	28
Net increase / (decrease) in cash balances	17,548	(2,585)
Cash balances at beginning of year	14,230	16,815
Cash balances at end of year	31,778	14,230

The accompanying notes form an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. Constitution

Hellenic Mutual War Risks Association (Bermuda) Limited ("the Association") was incorporated as an exempt company in Bermuda under an Act of the Bermuda Legislature. Certain powers concerning the conduct of business and management of the Company are contained in the Association's Rules and Bye-Laws. The Association holds an insurance permit under section 22 of the Insurance Act 2008 (an Act of Tynwald) to carry on insurance business in or from the Isle of Man. The Company is subject to Isle of Man income tax at a rate of 0%. The company is not subject to the Isle of Man distributable profits charge. Under current Bermuda law the Association is not required to pay any taxes in Bermuda on either income or capital gains. The Association has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Association will be exempted from taxation until the year 2016. The Association insures Greek owned merchant ships against war risks.

The Association holds 58.02% of the issued share capital of Hellenic Shipping War Risks Insurance S.A. (Ellinikai Naftiliakai Asfalissis Kata Kindinon Polemou A.E.), a company incorporated in Greece. The subsidiary performs certain services in Greece on behalf of the Association.

2. Accounting policies

(a) General

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(J) and note 9. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(b) Principles of consolidation

The Consolidated Financial Statements include the accounts of the Association and of its subsidiary, Hellenic Shipping War Risks Insurance S.A (Ellinikai Naftiliakai Asfalissis Kata Kindinon Polemou A.E.).

(c) Policy year accounting

For internal accounting and reporting purposes, the Association follows policy year accounting.

Contributions and premiums, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy years to which they relate.

Investment income, profits / losses on sale of investments and currency exchange gains / losses are allocated proportionally to the funds on the General Reserve and open policy years.

The management fee and general expenses are allocated to the current policy year.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

2. Accounting policies (continued)

(d) Non-US dollar currencies

Foreign currency assets and liabilities and movement on forward currency contracts have been translated at the closing US dollar exchange rate at the year end. The resultant difference is included within exchange gains / losses (see note 7).

Revenue transactions are translated into US dollars at the closing rate applicable for the month in which the transaction took place.

All exchange gains / losses whether realised or unrealised have been included in the 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 the unrealised gains and losses on investments within investment return (see note 8).

(e) Contributions and premiums

Contributions and premiums, less returns, 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.

(f) Claims

Incurred claims include claims paid, the estimated cost of known outstanding claims and a provision for incurred but not reported claims. These amounts are shown net of reinsurance recoveries in the Statement of Operations.

Estimated costs of known outstanding claims are based on the Managers' best assessment and judgement of the expected final costs of any claim, relying on the information available at the time. Inherent in these estimates are factors that could vary as the claims develop, including reports on the background facts of an incident and advice from lawyers appointed on the Association's behalf. Accordingly, the amounts provided for estimated outstanding claims may differ materially from the Association's ultimate liability for such claims. Estimates on individual claims are reviewed on a regular basis and any differences are recorded in the period in which they are determined. Outstanding claims in the balance sheet are shown gross and reinsurance recoveries are shown as an asset.

The provision for claims incurred but not reported is based on the Managers' best estimate of the final cost of any claims arising out of events that occurred during the year, but which have not currently been reported to the Association. The Association does not experience a volume of claims sufficient to allow meaningful actuarial analysis and so the estimate is based on the Managers' assessment of the likelihood of claims being incurred but not reported. Accordingly, the provision for claims incurred but not reported may differ materially from the actual amount of such claims and differences are recorded in the period in which they are determined.

(g) Reinsurance recoveries

The amount credited to the Statement of Operations for reinsurance recoveries relates to recoveries on claims incurred during the year.

(h) Reinsurance premiums

Reinsurance premiums payable by the Association are charged to the Statement of Operations on an accruals basis. Reinsurance does not relieve the Association's obligations to insured Members and a reinsurer insolvency could expose the Association to the risk of loss. Accordingly provisions are established for any reinsurance amounts due that management deems to be uncollectable.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

2. Accounting policies (continued)

(i) Investment return

Investment return comprises interest received and accrued on bonds and bank deposits, dividend receipts and profits and losses on the disposal of investments.

Investment return is allocated between the General Reserve and open policy years proportionately to their funds.

(j) Investments

Bonds, equities and absolute return funds are stated at market value and are held in the trading portfolio. Non-US dollar assets are translated at the closing rate of exchange at the date of the Balance Sheet.

(k) Fixed assets and depreciation and amortisation

Fixed assets are stated at cost less depreciation and amortisation, except for buildings which are restated every four years to their taxable value. Depreciation and amortisation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Buildings	5%	straight line basis
Furniture and fittings	20 - 30%	straight line basis
Formation expenses	20%	straight line basis

(l) Cash and deposits

The Association considers all deposits with financial institutions that can be withdrawn without prior notice or penalty, and short-term deposits with an original maturity of ninety days or less, as equivalent to cash. *(The cash and investments of the Association are analysed in more detail in note 12).*

(m) Reserves

The permitted purposes for which the funds and reserves are maintained are stated within the Association's Rules.

(n) Market Risk

Market risk is the risk of changes in the financial markets affecting the value of the Association's investments. It is managed by the Association's investment policy, which is monitored by means of reports from the Investment Managers to the Directors at each Board meeting. *(The investments of the Association are analysed in more detail in note 9).*

(o) Credit Risk

Credit risk is the risk of losses caused by other parties failing, in whole or in part, to meet obligations to the Association. Debtor exposure is mitigated because it is widely spread across the membership. This exposure is monitored by means of twice yearly reports from the Managers to the Board and it is the Association's policy not to confirm renewal to any Member with amounts overdue. *(The debtor balances of the Association are analysed in more detail in notes 13 and 14).*

(p) Insurance Risk

Insurance risk is the risk associated with claims on the Association. Exposure is primarily mitigated by a strategy of risk transfer through the Association's reinsurance programme. The Association's underwriting policy, which the Board reviews at least once a year, is also used to manage this risk.

(q) Reinsurance Risk

Reinsurance risk is the risk of the Association's reinsurers being unable to meet their obligations. This risk is mitigated by placing reinsurance only with underwriters rated 'A' or above by AM Best or Standard & Poor's and by ensuring that no single underwriter carries more than a 10% line. The Board reviews reinsurance annually before renewal.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

2. Accounting policies (continued)

(r) Adoption of accounting standards

On January 1, 2008, in accordance with the applicable transitional provisions, the Association applied the recommendations of new Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation", of the Canadian Institute of Chartered Accountants' Handbook, which replaced Section 3861, "Financial Instruments and Presentation", for years commencing on or after October 1, 2007. The new standards enhance the abilities of users of financial statements to the significance of financial instruments to an entity, related exposures and the management of these risks. The Association has made additional disclosures in light of this new Section.

On January 1, 2008, in accordance with the applicable transitional provisions, the Association adopted the new recommendations in Section 1400, "General Standards of Financial Statement Presentation", effective for years commencing on or after January 1, 2008. Section 1400 requires management to make an assessment of the entities ability to continue as a going concern over a period which is at least, but not limited to, twelve months from the balance sheet date. As management consider the Association to be a going concern the new standard has no impact on the Association's financial results.

3. Contributions and premiums

	2008 US\$'000	2007 US\$'000
Advance contributions	6,481	5,563
Additional premiums	18,168	10,219
Ellinikai contributions	24	27
	24,673	15,809

Before the start of each Policy year, the Directors decide the rate of Advance Contribution to be paid for that year, expressed as a percentage of the total sum insured in respect of each Entered Ship. The level of the Association's income from Advance Contributions may be affected by changes in the number or value of ships entered. Any reduction in Advance Contribution income would result in reductions in initial reinsurance premiums and in acquisition costs (brokerage). For example, had there been a 10% (US\$648,000) reduction in the level of 2008 Advance Contributions, there would have been corresponding reductions of US\$506,000 in initial reinsurance premiums and US\$40,000 in acquisition costs. All other things being equal, a 10% reduction in Advance Contribution income would, therefore, have reduced the operating result by US\$102,000 to US\$2.996 million.

The level of the Association's income from Additional Premiums may be affected by the number of Additional Premium Areas and the rates charged for trading to those Areas. It may also be affected by changes in the number or value of ships entered. Any reduction in Additional Premium income would result in a reduction in additional reinsurance premium. For example, had there been a 10% (US\$1.8 million) reduction in the level of 2008 Additional Premium, there would have been a corresponding reduction of US\$1.2 million in additional reinsurance premium. All other things being equal, a 10% reduction in Additional Premium income would, therefore, have reduced the operating result by US\$600,000 to US\$2.498 million.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

4. Reinsurance premiums

	2008 US\$'000	2007 US\$'000
Initial	5,064	4,475
Additional	12,245	7,107
	17,309	11,582

The rate the Association is charged for the initial reinsurance, which the Directors agree at their November meeting, is fixed before the start of each Policy Year and applies for the whole year. The reinsurance rates the Association is charged for voyages into Additional Premium Areas are assessed on a voyage by voyage basis and vary according to the prevailing situation in each area. The level of the Association's Additional Premium reinsurance cost may also be affected by changes in the number of Areas. Any increase in this reinsurance cost would result in higher Additional Premium income. For example, had there been a 10% (US\$1.2 million) increase in Additional Premium reinsurance cost, there would have been a corresponding increase of US\$1.8 million in Additional Premium income. All other things being equal, the operating result would, therefore, have increased by US\$600,000 to US\$3.698 million.

5. Incurred claims

	2008 US\$'000	2007 US\$'000
Gross claims paid	2,374	1,841
Less: reinsurance recoveries	(2,372)	(1,841)
Net claims paid	2	-
Decrease in provision for outstanding claims	(1,583)	(1,531)
Decrease in provision for reinsurance recoveries	1,583	1,531
Net incurred claims	2	-

The Association is protected against the incidence of claims by reinsurance treaties under which the Association obtains recovery from its reinsurers in respect of all claims arising out of events occurring in Additional Premium Areas. Since the 1997 Policy Year, the Association also obtains recovery in excess of an annual aggregate deductible of US\$250,000 in respect of all claims arising out of events occurring in all other Areas.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

6. Operating expenses

	2008 US\$'000	2007 US\$'000
Management fee	2,884	2,698
Employee costs	169	122
Directors' meetings – travel and hotel expenses	166	140
Communications – telephone, telex and postage	107	101
Insurance expenses	99	117
Bank and finance charges	91	108
Greek office expenses	86	91
Printing and stationery	84	55
Audit fee	82	91
Legal and other professional charges	57	71
Managers' travel	52	99
Miscellaneous	17	22
Government fees	15	13
Depreciation and amortisation	10	11
NATO PBOS Working Group	6	47
	3,925	3,786

7. Exchange gains / (losses)

	2008 US\$'000	2007 US\$'000
Exchange gains / (losses) on operating activities	63	(62)

8. Investment return

	2008 US\$'000	2007 US\$'000
Interest on bonds	399	885
Interest on bank deposits	714	647
Income on absolute return funds	-	1
Dividends	47	149
Profit on bond sales	749	220
Loss on equity sales	(689)	(25)
Loss on UCITS sales	(69)	-
(Loss) / profit on absolute return fund sales	(5)	249
Realised loss on currency dealings	(394)	(75)
Rental income	109	100
	861	2,151

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

8. Investment return (continued)

	2008 US\$'000	2007 US\$'000
Unrealised (loss) / profit on bonds	(802)	437
Unrealised (loss) / profit on equities	(1,901)	10
Unrealised loss on UCITS	(287)	-
Unrealised (loss) / profit on absolute return funds	(1,744)	221
	(4,734)	668
Investment return	(3,873)	2,819

9. Investments

	Company		Group	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Bonds	6,931	20,746	6,931	20,746
Equities	2,511	8,457	2,511	8,457
Absolute Return Fund - listed	5,997	1,993	5,997	1,993
Total listed investments at market value	15,439	31,196	15,439	31,196
Cost US\$17,869,135 (2007 US\$30,256,837)				
Absolute Returns Funds - unlisted	2,327	2,081	2,327	2,081
Investment in subsidiary company	895	855	-	-
	18,661	34,132	17,766	33,277

The market value of the Association's investments in bonds may be affected by changes in the prevailing level of interest rates. At the Balance Sheet date, the investments in bonds had effective interest rates between 0.625% and 4.613% (2007 effective interest rates for bonds between 3.38% and 5.25%).

The risk of changes in interest rates, and other market risks, are managed by the Association's investment policy. The Investment Managers keep asset allocation under review, adjusting it according to the prevailing interest rates and other changes in the financial markets. In November, having reviewed the Investment Policy in the context of the Association's business activities, the Directors thought it appropriate to reduce the benchmark equity exposure from 30% to 10%. This reduction in turn reduced the volatility of the portfolio from 6.5% to 3.9% and the maximum probable loss from 11.6% of the portfolio to 5.8%. The expected return also fell as a result, but from 5.1% to 4.4%

(i) Interest rate risk

The Association held US\$2,409,000 in fixed rate holdings, and US\$4,522,000 in floating rate notes. The floating rate notes track US\$ LIBOR rates every 3 months, and so have minimal interest rate risk. Interest rate risk arises primarily from investments in fixed interest securities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in the current interest rates. The Association manages this risk through the specific investment guidelines under which each Investment Manager in the fixed interest discipline operate. At 31 December 2008, an increase / decrease of 50 basis points in interest yields, with all other variables held constant, would have made profit for the year US\$73,000 lower / higher.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

9. Investments (continued)

(ii) Equity price risk

The Association is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. The majority of investments held are listed and traded on the New York and other recognized exchanges.

Listed equity securities represent 100% of total equity investments, with 100% listed on the Luxembourg Stock Exchange. If the Luxembourg Index had increased / decreased by 5%, with all other variables held constant, and all the Association's equity investments moving according to historical correlation with the index the profit for the year would increase / decrease by US\$126,000 respectively.

No loans have been made to Directors, Officers or Managers and none is contemplated.

No other unquoted investments were held during the year.

All quoted investments are listed on major stock exchanges.

10. Outstanding claims

	2008 US\$'000			2007 US\$'000		
	Gross	Recoverable	Net	Gross	Recoverable	Net
Reported unpaid claims relating to:						
Open underwriting years:						
2008	1,831	(1,831)	-	n/a	n/a	n/a
2007	-	-	-	11	(11)	-
Closed underwriting years	2,012	(2,012)	-	2,358	(2,358)	-
	3,843	(3,843)	-	2,369	(2,369)	-
Provision for incurred but not reported claims	2,500	(2,250)	250	2,500	(2,250)	250
	6,343	(6,093)	250	4,869	(4,619)	250

11. Contingent Liability

The Association is currently engaged in litigation arising out of two separate and unrelated incidents: the total loss of the DEMETRA BEAUTY in the Gulf of Oman in January 1991 and an attack on the ATHENA by insurgents off Trincomalee in May 1997. Significant damages are claimed in both cases.

There was no material change as regards the DEMETRA BEAUTY during 2008. The Association continues to defend various claims in Greece, as the Association is not considered liable to pay damages for those claims.

There were further significant developments during the year as regards the ATHENA, which has involved litigation in Greece, London and the US. In August, attorneys acting for the Association arrested the ATHENA in the US to enforce awards and judgments obtained in respect of costs the Association incurred successfully defending claims brought by the Owners. The Owners provided a bond for US\$1.7 million, inclusive of interest and costs, to lift the arrest and steps are now being taken to enforce payment against the bond. In 2007, the Owners conceded all outstanding points in the London arbitration. These concessions have the effect of preventing them from pursuing further their existing claims (or any other claims) against the Association in Greece or New York.

On the basis of current information and legal advice, it is considered that there is no liability on the Association in either case and, therefore, the litigation is unlikely to have any material impact on the net financial position of the Association. As in previous years, an estimate of the legal costs likely to be incurred in defending the two cases has been included in the provision for outstanding claims.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

12. Cash and investments maturity summary

i) Cash and investments	Company		Group	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Interest bearing securities	6,931	20,746	6,931	20,746
Equities	2,511	8,457	2,511	8,457
Absolute Return Funds	8,324	4,074	8,324	4,074
Cash balances	30,642	13,074	31,778	14,230
	48,408	46,351	49,544	47,507
ii) Maturity summary	%	%	%	%
Cash balances	63.30	28.22	64.14	29.95
Equities	5.19	18.24	5.07	17.80
Absolute Return Funds	17.19	8.79	16.80	8.58
Interest bearing securities repayable:				
Within one year	-	2.81	-	2.74
One to three years	5.80	17.12	5.67	16.71
Three to seven years	6.57	24.82	6.42	24.22
Over seven years	1.95	-	1.90	-
	100.00	100.00	100.00	100.00
iii) Concentration exposure	%	%	%	%
Bank of New York	14.40	46.27	14.07	46.27
RBSI Treasury Funds	2.62	1.84	2.55	1.84
TMI Liquidity Funds	53.54	15.12	52.31	15.12
Equity holdings	5.19	18.25	5.07	18.25
Fund Managers	17.19	17.02	16.80	17.02
Barclays Bank	6.77	1.43	6.62	1.43
Other banks	0.29	0.07	2.58	0.07
	100.00	100.00	100.00	100.00
iv) Currency exposure	%	%	%	%
Euro	1.48	3.55	3.74	6.30
Sterling	1.56	3.96	1.52	3.46
US Dollar	96.96	92.49	94.74	90.24
	100.00	100.00	100.00	100.00

The Association has no exposure in any other currencies. All bank balances and cash are held in American and European institutions.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

13. Sundry debtors

	Company		Group	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Other debtors and prepayments	3,862	2,219	3,876	2,226
Claims recoverable from reinsurers	1,143	1,251	1,143	1,251
United Kingdom registration deposit	-	115	-	115
	5,005	3,585	5,019	3,592

14. Amounts due from Members

	Company		Group	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Amounts due within:-				
Less than one month	3,421	2,356	3,421	2,356
One to two months	1,767	700	1,767	700
Two to three months	973	265	973	265
Over three months	196	187	196	187
	6,357	3,508	6,357	3,508

15. Creditors

	Company		Group	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Reinsurance balances	6,625	3,010	6,625	3,010
Members' balances	6,977	3,463	6,977	3,463
Accrued expenses and deferred income	215	221	218	225
	13,817	6,694	13,820	6,698

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

16. Reserves

	Company		Group	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
General Reserve				
Balance brought forward	46,252	42,588	46,389	42,611
Surplus on closure of 2005 policy year	-	1,018	-	1,018
Surplus on closure of 2004 policy year	578	-	578	-
	46,830	43,606	46,967	43,629
Investment income and exchange movements	(3,899)	2,643	(3,810)	2,757
(Deficit) / surplus on closed policy years since closure	(61)	3	(61)	3
	(3,960)	2,646	(3,871)	2,760
Total General Reserve	42,870	46,252	43,096	46,389
Open policy years:				
2006	-	664	-	578
2007	336	232	262	107
2008	3,182	-	2,904	-
Reserves at end of year	46,388	47,148	46,262	47,074

The General Reserve is available to meet the whole or any part of the claims, costs, expenses and outgoings on any closed Policy Year or Years to the extent that the contributions and premiums paid in respect of such Year or Years are insufficient to meet those claims, costs, expenses and outgoings.

The open year reserves represent the cumulative surplus or deficit for a particular Policy Year. Upon closure of a Policy Year, the surplus or deficit is transferred to or from the General Reserve, as appropriate.

The Directors' reserving policy, agreed in 2007, highlights the need for reserves: to demonstrate financial security; to meet statutory solvency requirements; and to minimise the impact of matters outside the scope of solvency requirements that could materially affect the Association's financial results.

The growth in the Association's reserves over recent years is appreciated by the membership. It is taken to indicate a strengthening financial position and viewed positively in the insurance market.

The Association is authorised and regulated by the Bermuda Monetary Authority and the Isle of Man Insurance & Pensions Authority. Its reserves comfortably exceed current requirements in both places (see note 17).

Reserves could, in the future, also be used if necessary to minimise the effect of any material change in the Association's financial results on the level of contributions paid by Members. For example, if the insurance market changed significantly, so that capacity contracted, or if for any other reason reinsurance rates increased sharply, the Association's reserves would allow it to finance a greater retention of risk, to reduce the effect of any rates increase on the membership and to allow adjustment to a higher rate environment by stages.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

17. Statutory reserve

	2008 US\$'000	2007 US\$'000
Balance brought forward	240	240
Movement for the year	-	-
Statutory Reserve at end of year	240	240

The minimum solvency margin required in Bermuda for 2008 was US\$120,000 (2007: US\$120,000), as set out in The Insurance Act 1978, amendments thereto and related Regulations insofar as such provisions relate to accounting and financial reporting matters. An additional US\$120,000 of statutory reserves are restricted as set out in the legislation under which the Association is incorporated and may not be distributed by the Association without approval in accordance with the Companies Act.

The provisions of the Isle of Man Insurance Regulations 1986 set the minimum level of solvency required of the Association in the Isle of Man. The level is based on the net premiums written during the year, converted at the sterling rate of exchange prevailing at the year end. The solvency margin required for 2008 was US\$585,000 (2007: US\$508,000).

As at 31 December 2008, the balance of the Association's funds, including the Statutory Reserve Fund of US\$240,000, was US\$46.6 million. The Association, therefore, complied with the externally imposed capital requirements to which it is subject.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2008

18. 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 but one of the Directors (who is Bermuda resident) 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 Investment (Isle of Man) Limited acted as Investment Managers on behalf of the Association during the year. Fees for these services are included in the US\$2,884,000 management fee (2007: US\$2,698,000) paid to the Managers during the year, which is disclosed in note 6 of the financial statements. These transactions were conducted at an arm's length basis.

Cash balances include a holding in the TMI Liquidity Fund PLC which is managed by Thomas Miller Investment (Isle of Man) Limited. The investment is listed on the Channel Islands Stock Exchange and the cost and market value are based on the underlying value of the investments at the date of purchase and the date of the balance sheet respectively. (Cost - US\$25,919,000, Market value - US\$25,919,000).

Managers and Officers

Managers

Thomas Miller (Bermuda) Limited

Secretary

D W R Hunter

Assistant Secretary

Thomas Miller (Isle of Man) Limited

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Thomas Miller is a boutique insurance business with an exceptionally strong service ethos. We thrive in areas where being able to deal with complex issues and build strong relationships really matter.

We manage some of the most important insurance mutuals in the international transport and professional indemnity sectors. We also run other specialist insurance businesses.

Mutuals exist to help their members. Because they are such an important part of our business, mutuals shape our mindset. So we support our clients, going to great lengths to solve their problems and pay claims.

In everything we do, we aim to be the best.

Transport

Hellenic War Risks Club, ITIC, TT Club,
UK Defence Club, UK P&I Club, UK War Risks Club

Professional indemnity

Bar Mutual, CODAL, HAMIA, OPDU, PAMIA, SIMIA

Specialist

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Miller Investment, Thomas Miller Risk Management

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