

Review of 2008

For the year ended 31 December 2008



Total Number of Ships Entered

2,283

End of Year Reserves

\$46 million

For the year ended 31 December 2008

Chairman's Message

The following Managers' Review highlights the main developments during the year. It would be inappropriate for me to issue an annual statement, having taken my first meeting as Chairman of the Association in November 2008.

However, I would like to take the opportunity to express my gratitude and that of the whole Board to my predecessor, Mr John M Lyras, for his commitment and contribution to the Association, as Chairman from 2003 to 2008 and as a Director for 28 years.

I look forward to reporting to you on 2009 in a year's time.

M.D. Chandris

27 April 2009

Managers' Review

In contrast to preceding years, 2008 was very challenging for a number of quite different reasons.

Like other insurers, the Association was affected by extraordinary developments in the world financial markets during the year. By maintaining a conservative investment strategy, with a strong focus on cash holdings, the Association managed to restrict the effect of those developments. The Association's policy of using premium income to cover claims and operating expenses meant there was a healthy operating surplus. Although there was an overall deficit for 2008 after investment income, it was limited to less than 2% of reserves which, at the end of the year, stood at \$46.3 million. The Association, therefore, remains in a sound financial position going into 2009.

The Association saw the effects of significant movements in ship values in 2008. Nevertheless, as at 31 December 2008, the total entered value was about 11% higher than a year previously. The number of ships entered increased to 2,283 over the year. Both increases demonstrate the valuable support Members continue to give the Association.

During the year, the level of pirate activity in the Gulf of Aden and the Indian Ocean was cause for great concern in the marine insurance market. Given the size of the Greek fleet and the number of ships that transit the Gulf of Aden, it was perhaps inevitable that Members would be affected. As detailed in the Market Review, there were attacks on a number of entered ships, two of which resulted in ships being seized. Both were released safely, but the incidents illustrate the risks to which seafarers and ships are exposed in this region. The risks seem likely to remain until there is a permanent solution of land based problems in Somalia itself which, regrettably, seems unlikely in the short term.

The Association and its Members may expect further challenges in 2009. A sound financial position, the continuing support of the membership and our ability to respond in areas of particular concern mean that we are well placed to deal with those challenges.

Thomas Miller (Bermuda) Ltd
Managers

Market Review

Events in waters off Somalia dominated the war risks market during 2008. There was a surge in the level of pirate activity in the Gulf of Aden and in the Indian Ocean. According to the International Maritime Bureau, there were over 100 reported attacks on merchant ships, with 49 ships being seized during the year.

There were five attacks off Somalia during 2008 on ships entered in the Association. In September, two entered ships were attacked and seized in the Indian Ocean within a few days of each other. Both attacks occurred more than 250 miles out to sea. The ships were taken over by armed men, then forced to sail to the Somali coast, where both were held for over two months. The Association assisted the Owners with negotiations that eventually resulted in the safe release of the ships, their crew and their cargoes.

Following initiatives from the International Maritime Organisation, the international community responded to the situation by deploying more naval forces in the region. Before the end of the year, an Internationally Recommended Transit Corridor (“IRTC”) had been established and an EU Naval Force, as well as Coalition Task Forces and ships from numerous other navies were all providing protection to merchant shipping. Nevertheless, ship seizures continued, so that the Gulf of Aden and the Indian Ocean remained the areas of greatest concern in the market.

Market concern was reflected in the approach taken towards Additional Premium (“AP”) Areas. In May, underwriters in the London market decided to add Gulf of Aden transits to the list of AP Areas and to extend pre-existing Somali AP

Areas. There was no immediate change in the Association’s list of AP Areas, but the Association continued to monitor developments closely. Before the end of the year, it became clear there was no prospect of any significant improvement in the short term. With effect from 1 January 2009, the Association started charging Members AP for ships transiting the Gulf of Aden and parts of the Indian Ocean. By taking advantage of economies of scale, it was able to offer Members very competitive AP rates for transits.

The Association continues to encourage Owners to use the IRTC and to put defensive measures in place on board any ships transiting Somali waters. The Association also encourages Owners’ offices to register with the EU Naval Force’s Maritime Security Centre – Horn of Africa and ships to participate in the voluntary reporting scheme operated by the Royal Navy’s Maritime Trade Organisation. Details of both organisations can be found on the Association’s website.

There were other areas of concern during the year. In August, there was fighting between the Georgian military, separatists and Russian forces. Georgia became an AP Area as a result. Militant activity in Nigeria continued, with oil installations coming under attack once again in September. In Sri Lanka, fighting between government forces and the Tamil Tigers escalated towards the end of the year, with two merchant ships being attacked in October. Tensions in and around the Gaza Strip rose during the year and, in December, Israel began a ground offensive. AP rates in all four areas increased during the year, although rates for Georgia reduced towards the end of the year, as the situation there appeared to calm.



Finances

This section takes figures from the audited Directors' Report and Consolidated Financial Statements 2008, which the Directors approved for submission to the Annual General Meeting in Athens in September. The Directors' Report and Consolidated Financial Statements 2008 will be sent to Members in advance of the AGM.

The table below compares key financial information from 2008, together with the corresponding figures from 2007.

All amounts in US\$000s	2008	2007
Contributions and Premiums	24,673	15,809
Reinsurance premiums	(17,309)	(11,582)
Expenditure	(4,266)	(4,140)
Operating surplus / (deficit)	3,098	87
Investment return	(3,873)	2,819
Income taxes	(26)	(20)
Surplus / (deficit) for the year	(801)	2,886
Non-controlling interests	(11)	(5)
Net surplus / (deficit)	(812)	2,881
Reserves at the year end	46,262	47,074

Advance Contribution rates for 2008 were reduced by 15%. Nevertheless, income from Advance Contributions increased to US\$6.481 million, 26% of total underwriting income, because of increasing values early in the year. In 2007, Advance Contributions, at US\$5.563 million, were 35% of underwriting income.

Rising AP rates, particularly in Nigeria, and increasing ship values contributed to a significant increase in AP income in 2008, to US\$18.168 million, 74% of total underwriting income, compared to US\$10.219 million (65%) in 2007.

As a result, there was a healthy operating surplus of US\$3.098 million for the year.

Investment returns for 2008 were seriously affected by the extraordinary developments in the financial markets. There were very few signs of strain within the global economy at the start of the year. Central banks appeared more concerned about rising inflation than the sub-prime debt crisis, which had emerged in August 2007. Even after Bear Stearns collapsed in March, governments and central banks appeared convinced they could contain the impact of the crisis through limited assistance to a few financial institutions.

Any doubts about the seriousness of the situation were swept aside during September. Lehman Brothers' collapse ended any doubts about the fragility of the banking system or the authorities' ability to control events. The speed at which the contagion spread to other financial institutions was breathtaking. Over a very short period, Merrill Lynch was folded into Bank of America, Washington Mutual failed and the US government was forced to rescue AIG, Fannie Mae and Freddie Mac. To gain access to government funds, Morgan Stanley and Goldman Sachs quickly converted to bank holding companies. Equity markets fell sharply, and the S&P 500 index fell by 37%.

Later in the year, central banks moved quickly to reduce interest rates and, in some cases, introduced quantitative measures to ease monetary policies. The combination of lower interest rates and strong demand from investors seeking a safe haven drove government bond yields lower, to levels not seen in several decades. In contrast, corporate bond yields rose sharply, reflecting heightened concerns over corporations defaulting on their debt. Absolute return managers had a torrid time, struggling to deal with collapsing asset values, investor redemptions and the withdrawal of investment bank capital support. Government actions to restrict equity shorting also acted as a constraint on some managers' activities and depressed performance.

The Association maintained a cautious investment strategy. Holdings in cash were increased through the sale of bonds and equities. By the end of the year, cash balances comprised 63% of the investment fund.

The cautious strategy had the effect of limiting the investment loss for the year. Increased income and the consequent operating surplus meant that the deficit for 2008 was limited to US\$801,000, about 1.73% of reserves which, at the year end, stood at US\$46.262 million.



Membership

At the end of 2008, there were 2,283 ships entered in the Association, of which 568 were Greek-flagged. The corresponding figures for 2007 were 2,228 and 477. The following table sets out the number of ships entered by type of ship and the number of Greek flagged ships as at 31 December 2008.

Ship Type	Total entered	Greek flagged
Bulk Carriers	1,103	223
Containerships	78	2
Dry Cargo Ships	176	14
LPGs	63	3
OBOs	4	0
Passenger Ships (other than Cruise Liners)	61	54
Passenger Cruise Liners	4	0
RO / ROs	37	19
Tankers up to 90,000 GT	597	172
Tankers over 90,000 GT	70	41
Other types of ship	90	40
Total	2,283	568

Events in waters off Somalia dominated the war risks market during 2008.

Market Review

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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