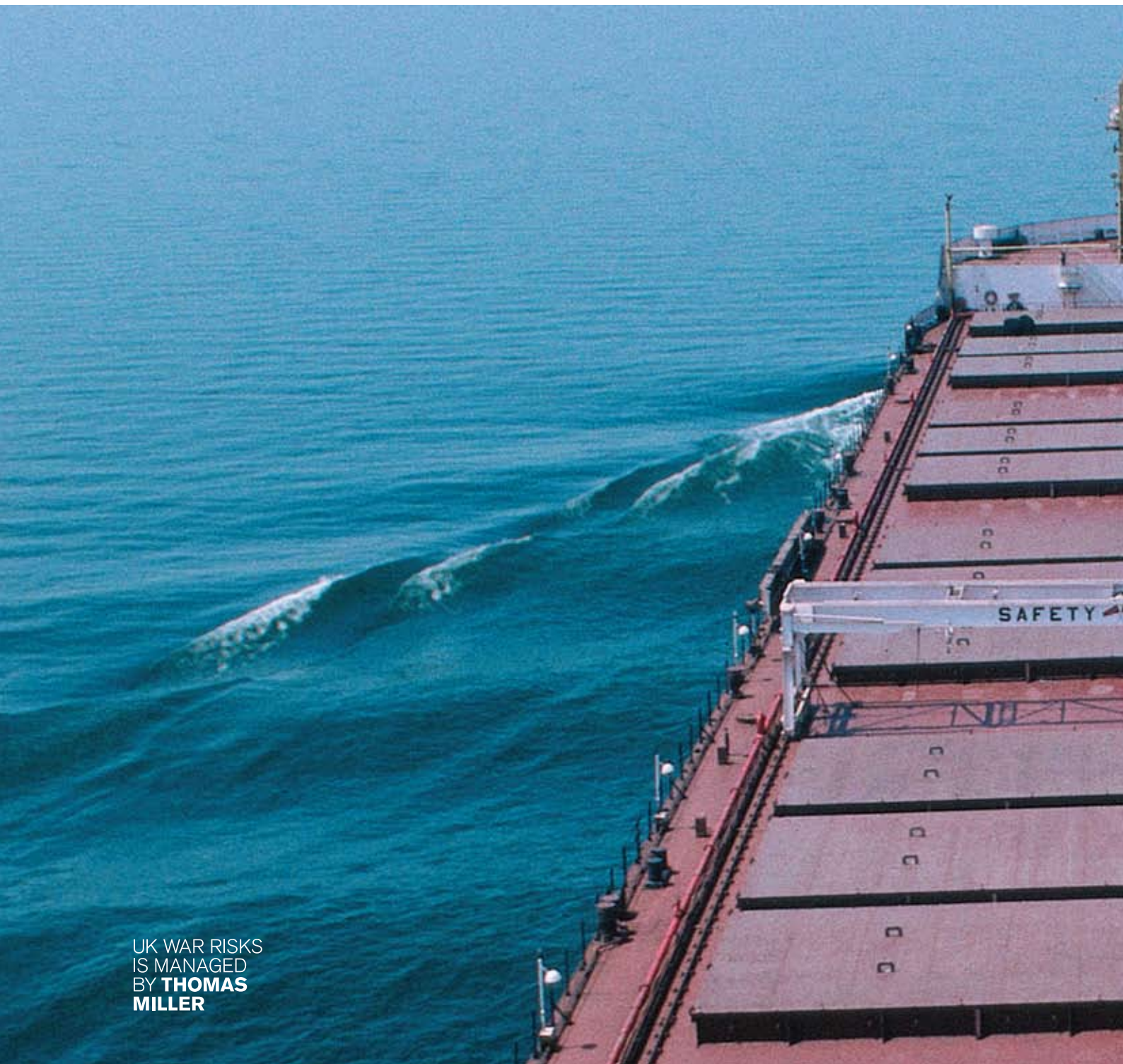


UK WAR RISKS

Review of 2008

For the year ended 20 February 2009



UK WAR RISKS
IS MANAGED
BY **THOMAS
MILLER**

Market Review

During 2008, Somalia moved from being “the forgotten crisis” to attracting worldwide attention. Pirates were active in the Gulf of Aden and also in the Indian Ocean, in one case seizing a ship some 450 miles out to sea. The International Maritime Bureau recorded 111 reported attacks on merchant ships and 49 ships being seized. Hundreds of seafarers were taken captive. Unlike some other underwriters, the Association did not immediately extend its AP Areas in the first half of 2008, preferring to see how the situation in Somalia developed. By late in the year, the situation had deteriorated significantly and seemed unlikely to improve in the short to medium term. As a result, the Association declared the whole Gulf of Aden and the western part of the Indian Ocean AP Areas early in 2009.

Although Somalia might have attracted the most media attention during 2008, it was by no means the only area causing concern.

In August, fighting broke out in Georgia between government and separatist forces. Russian forces intervened, but a ceasefire was agreed before the conflict escalated further. Georgia was declared (and remains) an AP Area as a result.

The situation in the Middle East generally remained as volatile as ever. Violence continued in Iraq. There was an upsurge in violence in Lebanon during the first few months of 2008: a unity government was eventually formed in July. There were rocket attacks from Gaza on Israel, leading eventually to Israeli interventions and military action in Gaza. The latest ceasefire came into effect in January 2009. Changes in AP rates reflected the volatility in these areas.

Militants and separatists remained active in Nigeria. Besides continuing to attack oil pipelines, they mounted seaborne attacks. In May, there were also attacks on the border between Nigeria and Cameroon. AP rates hardened as a result of this activity, with rates for ports east of 5° E remaining higher than for more westerly ports.

The fighting in Sri Lanka between government forces and the Tamil Tiger rebels continued throughout 2008. In October, the Tamil Tigers attacked two merchant ships off the northern coast. Later in the year, government forces took the offensive in northern Sri Lanka, aiming to crush the rebels. The significant risk to merchant ships led to increases in AP rates for calls to Sri Lankan ports.

As noted in the Chairman’s Statement, no entered ships were attacked in the Gulf of Aden or the Indian Ocean. In fact, the Association was not notified of any claims during the year. Nevertheless, the incidents off Somalia and the situation elsewhere demonstrate that, like other ship owners, Members are exposed to war risks in various areas.

The Association provides cover for areas where ships are more exposed to war risks, charging AP for doing so. Rates reflect the situation in a particular area when a ship calls there. The size of the Association makes it possible to buy reinsurance protection competitively and pass Members benefits in the form of competitive AP rates. A 30% commission is allowed on APs placed on the Association’s main reinsurance contract.



Chairman's Statement

I concluded last year's statement by noting the possibility of our market being liable to change at short notice. The 2008-09 Policy Year proved to be a year of change in various different ways.

There were changes in the world financial markets, as the effects of the global credit crisis spread ever wider. The markets were characterised by volatility and falling asset values, with investment returns falling as a result. Maintaining a conservative investment policy protected the Association from the worst effects of the crisis. The Association's sound financial foundations meant that the Directors were still able to agree a return of call for 2008 to all Members renewing for 2009. Reserves at the end of the year, after the return of call, stood at £14.7 million, comfortably in excess of statutory requirements and within the target range set by the Directors.

The situation in the Gulf of Aden and the Indian Ocean deteriorated: there were more than 100 attacks on merchant ships in the region during 2008. Fortunately, no ships entered in the Association were attacked or affected. The general deterioration led to the Gulf of Aden and parts of the Indian Ocean becoming Additional Premium ("AP") Areas shortly before the end of the year. However, by using advantages of scale in reinsurance purchasing, the Association was able to offer Members the benefit of competitive Additional Premium rates for transits of these areas.

Turning to more positive themes, the Association has continued growing. The number of ships entered increased to 877 at the end of the year and, as ship values continued to increase, the total value of all ships entered rose to £22.7 billion.

Towards the end of the year, the Association announced it would expand membership further by making it more international. From 20 February 2009, the Association made mutual war risks insurance available to ship owners without any connection to the UK, offering them the benefits of membership, including broad cover, attractive rates and first class service. The Association will continue providing cover for Queen's Enemy Risks, which is reinsured by the UK Government. Expansion will also benefit the current membership by making it more diverse and spreading risk more widely, as well as further strengthening the Association's market position.

We may expect more changes and further challenges in the year ahead. The Association's sound finances, its ability to offer Members competitive benefits and its continuing growth together mean we may still look ahead with some confidence.

R.G. Crawford
Chairman



Finances

This section takes figures from the audited Directors' Report and Financial Statements for the year ended 20 February 2009, which the Directors have approved for submission to the Annual General Meeting in October. The full Report and Financial Statements will be sent to Members in advance of the AGM.

The table below right compares key financial information as at 20 February 2009 together with the corresponding figures from 20 February 2008.

After allowing for a 10% return of call, income from Advance Contributions during the year amounted to £2.5 million (57.5% of total premium written). Income from Additional Premiums amounted to £1.8 million (42.5%). Increases in ship values during the year meant that income for 2008 was higher than in 2007, despite the reduction in Advance Contribution rates that took effect from 20 February 2008.

Investment income suffered during the year because of the effects of the global credit crisis. During 2008, bond markets were extremely volatile: they benefitted from a flight to quality, but bond yields fell later in the year, as central banks reduced interest rates. Equity markets fell sharply in the second half of the year, as a result of renewed concerns regarding the overall health of the financial system and the implications for credit and future economic growth. Shares began to recover following government intervention to recapitalise banks and further reductions in the base rate. The Association maintained a conservative investment approach. Its corporate bond holding was increased.

All corporate bonds purchased were government backed, some with yields up to 1% above that of comparable government bond issues. Cash and government bond holdings were reduced. Equity holdings were reduced during the middle of the year and increased towards the end of the year.

This approach meant that the investment loss for the year was restricted to £373,000 and the overall deficit to £306,000, equivalent to 2% of reserves at the start of the year.

Sound financial foundations and the level of reserves enabled the Directors to agree a return of call. The Directors decided there should be a 10% return of call for all Members renewing from 20 February 2009. Reserves at the end of the year remained comfortably above the statutory solvency margin and within the target range set by the Directors.

Total Number of Ships Entered

877

Total Entered Value

£22.7 billion

End of Year Reserves

£14.7 million

For the year ended 20 February 2009

All figures in £000s	2009	2008
Gross premium written	4,338	3,741
Outward reinsurance premium	(3,959)	(3,751)
Other technical income	129	79
Acquisition and administration costs	(441)	(341)
Operating surplus / (deficit)	67	(272)
Net investment income after tax	(373)	513
Deficit for the year (after tax)	(306)	241
Reserves at the year end	14,687	14,993



Membership

As the table below illustrates, both the total value and the number of ships entered in the Association continued to grow during the year. There was a proportionately larger increase in total entered value due to the addition of a number of high value ships and increases in ship values generally.

Policy Year	As at 20/02/09	As at 20/02/08	As at 20/02/07
Number of ships	877	850	639
Total entered value (£ billions)	22.7	15.7	13.3

Since its foundation in 1913, the Association has focused on providing insurance to British owned and British flagged ships, as well as existing Members' foreign flagged ships. In November 2008, the Association announced it would expand membership further by making it more international.

With effect from 20 February 2009, the Association made mutual war risks insurance available to ship owners without any connection to the UK. It will also continue providing UK registered ships cover for risks arising out of war involving the UK ("Queen's Enemy Risks"), which is reinsured by the UK Government.

As a result, the Association will now welcome applications from companies that are associated with existing Members but not connected to the UK. It will also consider applications from companies from outside the UK without any previous connection to the Association.

Existing Members will benefit from expansion. Risks will be more widely spread across a broader membership and there will be greater economies of scale.

Expansion will build on the growth of recent years, making the Association larger and stronger.

During 2008, Somalia moved from being "the forgotten crisis" to attracting worldwide attention.

Market Review

The UK War Risks Club is an independent, mutual war risks association. We are not a class of another club and we concentrate exclusively on war risks insurance. As a mutual, we are run for our Members' benefit. We are UK shipping's biggest war risk insurer and we welcome Members from outside the UK. This combination makes us unique.

email ukwr@thomasmiller.com web www.ukwarrisks.com

Managers

Thomas Miller War Risks Services Limited

90 Fenchurch Street, London EC3M 4ST

tel +44 (0)20 7283 4646 fax +44 (0)20 7929 3918

The United Kingdom Mutual War Risks Association Limited

Registered Office

90 Fenchurch Street, London, EC3M 4ST

Registered in England

No. 127262