

UK WAR RISKS

Review of 2009

For the year ended 20 February 2010



Chairman's Statement

This will be my last Chairman's Statement, as I will be retiring from the Board with effect from 14 April 2010. The Market Review highlights the significant developments of the last year, but I feel it is appropriate in this statement to focus on broader issues that have been constants throughout my time as Chairman.

Over a period of considerable change in both the insurance and shipping industries, our Association has remained a strong mutual. It is important not to overlook the benefits offered by an organisation run by and for its Members. In the case of our Association, they include a greater focus on Owners' needs, provision of insurance at competitive rates and greater stability of cost over time. During 2009, all Members benefited from very competitive rates for transits of the Gulf of Aden and Indian Ocean. Members renewing for 2010 also benefited from a 10% return of Advance Contribution.

As a mutual, our Association has always been committed to providing Members with first class service. It remains important to issue documents quickly and (for example) to have additional premium (AP) quotes readily available. If claims occur – there was only one minor incident notified during the year – our service includes assistance with managing the incident and guidance on presenting the Member's claim. Even though we maintain this high standard of service, we recognise there is always potential to develop and improve, which is why we have continued (and will continue) to seek comments and views from Members.

Financial stability has become even more important over recent years, especially in an increasingly regulated insurance environment. Our Association's sound financial base has not only satisfied the regulatory requirements of the Financial Services Authority; it has also helped to provide Members with stability of cost in what can be a volatile insurance market. It is, therefore, pleasing to report that, after a small overall deficit the previous year, the 2009 Policy Year delivered a positive operating

result and significantly more investment income than in 2008. Consequently, reserves at the year end had risen to £17.2 million.

Our Association has remained a specialist war risks insurer, one of only a handful in the marine market. Focusing exclusively on war risks has allowed us to develop a significant breadth and depth of knowledge and expertise. Somali piracy is an issue of great concern to ship owners at present and seems likely to remain so. Fortunately, no entered ships were attacked or seized during the year, but the Association did give Members advice on preventative and deterrent measures, as well as guidance on how to respond in the event of a ship being seized.

The Association's commitment to mutuality and to service, together with our financial stability and specialist focus sets us apart from the market. The combination has reinforced our position as UK shipping's biggest war risks insurer and, since 20 February 2009, the Association is open to applications from fleets from outside the UK. Membership grew during the year and at the year end stood at 890 ships, with a total entered value of £23.1 billion.

Unfortunately at the renewals for 2010 Carnival, as the largest Member, withdrew its vessels placing them with the rest of its fleet in the commercial market. Further reference to this is made in the section on Membership.

I would like to conclude this statement by expressing the pleasure and satisfaction I have experienced during my 28 years as Chairman, my thanks to Directors past and present, as well as to the small, active and efficient management team, with whom a growth in the Association from 70 ships, a total entered value of £2.07 billion and reserves of £5.4 million in 1982 was achieved to the figures mentioned above.

R.G. Crawford
Chairman



Market Review



Terrorism remained a dominant global issue throughout 2009. The most graphic reminder of the terrorist threat was, perhaps, Al Qaeda's failed attempt on Christmas Day to blow up an airliner bound for Detroit. There were numerous attacks in Afghanistan and Pakistan, as well as bomb attacks on luxury hotels in Jakarta in July. Against this background, the beginning of UK Forces' withdrawal from Iraq in March 2009 seemed no more than a small positive step.

In contrast, piracy off the coast of Somalia continued to dominate the marine war risks market. Pirates demonstrated their ability to operate at great distances off Somalia, with some attacks more than 1,000 nautical miles into the Indian Ocean. The number of pirate attacks increased. During 2009 there were 228 attacks, almost double the number in 2008. More Naval Forces were deployed to the region and, fortunately, the percentage of attacks leading to ships being taken by pirates reduced. Nevertheless, the number of ships seized in 2009 (52) was more than the number seized the previous year. By the beginning of 2010, the Additional Premium Area in the Indian Ocean had been extended, stretching as far as 65 degrees east and, at the equator, some 1,300 nautical miles from Somalia.

No entered ships were attacked in the Gulf of Aden or Indian Ocean, but the increase in the area and number of attacks during the year emphasised the importance of all ship owners taking appropriate steps to minimise the risk of their ship being taken. The Association has endorsed the Best Management Practices to Deter Piracy, a copy of which is readily available from the Association's website. All Members with ships transiting the Gulf of Aden or the Indian Ocean are strongly encouraged to follow the recommendations in that document.

There was evidence of piracy and other problems extending from Somalia. In July, a ship was seized off the coast of Oman. Throughout the year, the political situation in the Yemen deteriorated, contributing to a sense of instability in the region.

The Middle East remained a cause for concern throughout the year. The fact that the Middle East might have attracted less world wide media attention during the year did not reflect major improvements or progress. In January, there was heavy fighting in Gaza between Israeli troops and Palestinian militants. In February, the Israeli Navy intercepted a ship carrying aid to Gaza. The ceasefire agreed in January 2009 appeared to be holding, but tensions remain. AP Rates continue to reflect the volatility of the area.

Although Iran was not an AP Area during 2009, developments there indicated increasing tensions. There was internal political tension, with demonstrations in July after disputed presidential elections. Considerable concern was expressed internationally at Iran's nuclear development plans. In September, information indicated that Iran had been building a secret uranium enrichment plant. Developments in Iran will have to be monitored closely during 2010.

In Sri Lanka, there was intense fighting in the first quarter of 2009 between government forces and the Tamil Tigers. In May, the Sri Lankan army finally overcame Tamil Tiger resistance. Nevertheless, the situation remained unstable and, following presidential elections in January 2010, army officers were arrested on suspicion of plotting to overthrow the government.

There were further incidents in West Africa. The Movement for the Emancipation of the Niger Delta remained active, claiming responsibility for armed attacks. In November 2009, pirates killed a seafarer on board an oil tanker off the coast of Benin.

For the first time in many years, an AP Area was introduced in the Western Hemisphere. In May, the Venezuelan Government issued a decree "reserving" certain assets, including ships and barges, to the Venezuelan state. Assets belonging to a number of international oil services companies were seized. Venezuela as a result became an AP Area with effect from 3 July 2009.

The Association continued providing cover for areas where ships were more exposed to war risks and continued charging AP for doing so. The Association continued its policy of using economies of scale to buy reinsurance protection competitively, passing benefits to the Members in the form of competitive AP rates, particularly for the Gulf of Aden and the Indian Ocean.

Finances

This section takes figures from the audited Directors' Report and Financial Statements for the year ended 20 February 2010, 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 compares key financial information from the 2009 Policy Year, together with the corresponding figures from 2008.

After allowing for a 10% return of call, income from Advance Contributions during the year amounted to £4.4 million (67.8% of total premium written). Income from Additional Premiums amounted to £2.1 million (32.2%).

From 20 February 2009, the Association paid brokerage of 7.5% on Advance Contributions, less any discounts for hull interest or restricted trading. Where ships were entered directly, commission calculated on the same basis was payable to the Members. As a result, acquisition costs in the 2009 Policy Year are considerably higher than those for the previous year.

Investment income for the 2008 Policy Year had been affected by the global credit and financial crisis. During the 2009 Policy Year, the Association maintained its conservative investment approach. The level of fixed interest and equity investment was maintained. The Association continued to hold corporate bonds, all of which were government backed. Although yields fell as the Bank of England bought bonds to inject liquidity into the UK economy, equity markets performed strongly and continued to recover from the low reached in March 2009. As a result, net investment income for the year amounted to £1.5 million (compared to a deficit of £373,000 in 2008).

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 2010. Reserves at the end of the year remained comfortably above the statutory solvency margin.

Total Number of Ships Entered

890

Total Entered Value

£23.1 billion

End of Year Reserves

£17.2 million

For the year ended 20 February 2010

All figures in £000s	2009	2008
Gross premium written	6,477	4,338
Outward reinsurance premium	(4,757)	(3,959)
Other technical income	134	129
Acquisition and administration costs	(873)	(441)
Operating surplus	981	67
Net investment income / (expense) after tax	1,517	(373)
Surplus / (deficit) for the year (after tax)	2,498	(306)
Reserves at the year end	17,185	14,687



Membership

As the table below illustrates, both the total entered value and the number of ships entered in the Association grew during the year.

Policy Year	2009	2008	2007
Number of ships	890	877	850
Total entered value (£ billions)	23.1	22.7	15.7

Since 20 February 2009, the Association has made mutual war risks insurance available to ship owners without any connection to the UK; the Association welcomes applications from companies from outside the UK without any previous connection to the Association. A number of new Members have joined the Association as a result. It also continues to provide UK registered ships with cover for risks arising out of war involving the UK (“Queen’s Enemy Risks”), which is reinsured by the UK Government.

At the 2010 renewal, the largest single Member decided not to renew, resulting in a significant reduction in premium income. This reduction was offset by a significant reduction in reinsurance costs, the net result being that there has been no material effect on the Association’s reserves.

Pirates demonstrated their ability to operate at great distances off Somali, with some attacks taking place more than 1,000 nautical miles into the Indian Ocean.

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