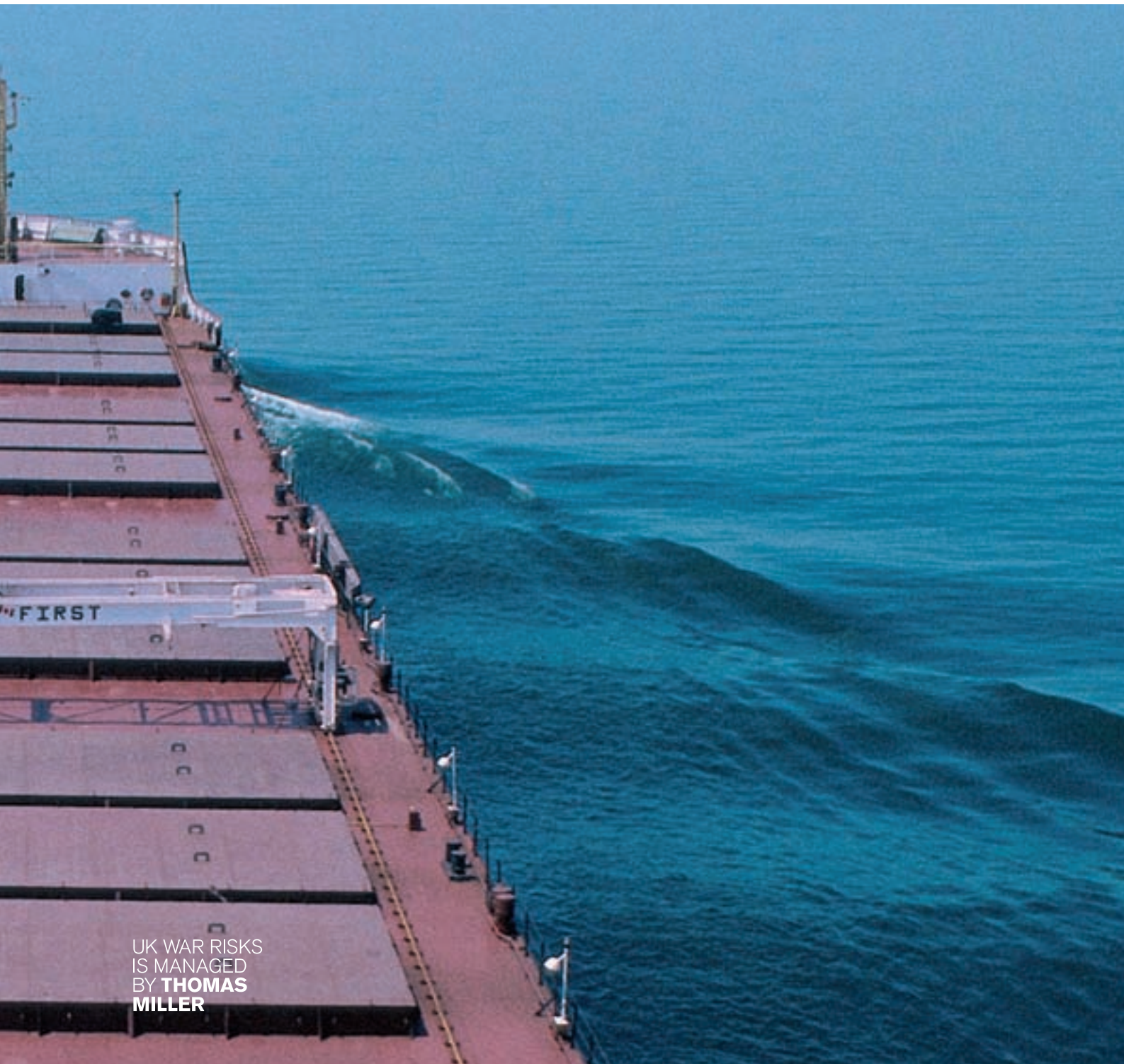


UK WAR RISKS 

Directors' Report and Financial Statements

For the year ended 20 February 2009



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

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.

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

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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 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 will make 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

Review of 2008

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 Additional Premium (“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 continued to be 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. Members are allowed a 30% discount on APs placed on the Association’s main reinsurance contract.

Finances

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

All figures in £000s	2008	2007
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

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.

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 value due to the addition of a number of high value ships and increases in ship value generally.

Policy Year	2008	2007	2006
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 will make 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.

The United Kingdom Mutual War Risks Association Limited.

Limited by Guarantee.

Notice of Meeting

The Annual General Meeting of the Members of The United Kingdom Mutual War Risks Association Limited will be held in the offices of the Association, 90 Fenchurch Street, London on 13 October 2009 at 11.00am for the following purposes:-

- To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2009 and, if they are approved, to adopt them.
- To elect Directors.
- To re-appoint the auditors and authorise the Directors to fix their remuneration.
- To consider, and if thought appropriate, adopt amendments to the Association's Rules and Articles of Association.

By Order of the Board

I.R. Jarrett
Secretary
30 April 2009

Directors

R.G. Crawford C.B.E. (Chairman)

A. Davies (appointed 5 December 2008)

J.G.M. Freeman

N.A.N.S. Robertson (resigned 21 October 2008)

E.C. Rothwell

T. Stage

C.D. Wannell

Directors' Report

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2009.

Principal Activity

During the year the Association's principal activity was the insurance of British owned ships and foreign flagged ships of existing Members against war risks. At noon on 20 February 2009, 877 ships, with a total value of £22.7 billion, were entered in the Association. A year previously, 850 ships with a total value of £15.7 billion were entered.

Entry of ships in the Association is recorded in several currencies, which have been converted into sterling at exchange rates applicable for the year and agreed with the Association's reinsuring underwriters. During the year the Association was a member of the Combined Group of War Risks Associations and party to an agreement, under which its liabilities are pooled with the three other members of the Group. In the year under review, as in previous years, the Group's reinsurance was not subject to a deductible, but did include the market automatic termination of cover clause.

With effect from 20 February 2009, the Association will offer insurance not only to British owned ships, but also to ships that are not British owned, regardless of flag. As a result, also with effect from 20 February 2009, the Association has withdrawn from the Combined Group of War Risks Associations and from the Pooling Agreement with the other Members of the Group. For the year beginning 20 February 2009, the Association has arranged its own reinsurance, on the same terms and conditions as in previous years. The Association's reinsurance is not subject to a deductible, but does include the market automatic termination of cover clause.

Additional Premium Areas

As at 20 February 2009, the Additional Premium Areas pursuant to Rule 19 were as follows:

The ports, places, countries, zones and areas listed include all harbours, offshore installations and terminals, unless otherwise stated.

AFRICA

Djibouti
Gulf of Aden Transits (see parameters right)
Indian Ocean Transits (see parameters right)
Ivory Coast
Nigeria
Somalia
Somalia Transits (see parameters right)

ASIA

Southern Gulf Coast of Thailand, between and including
Songkhla and Narathiwat
Sri Lanka

EUROPE

Georgia

INDONESIA / MALAYSIA

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

MIDDLE EAST

Gulf of Aden Transits (see parameters right)
Iraq
Israel
Lebanon
Saudi Arabia
Yemen

PHILIPPINES

Southern coast of Mindanao, between and including
Polloc Harbour and Mati
Sulu Archipelago Port Calls including Jolo
(see parameters right).

SULU ARCHIPELAGO

From Tanjung Bidadari (5° 49' 6N, 118° 21' 0E) along the
east coast of Sabah to Tanjung Bagahak Light (4° 56' 5N,
118° 38' 3E); thence south-eastwards to Pulau Matakang
Light (4° 34' 6N, 118° 57' 0E); thence southwards to
position 3° 32' 0N, 118° 57' 0E; thence north-eastwards
to position 5° 50' 0N, 122° 31' 0E; thence northwards
to position 7° 06' 6N, 122° 31' 0E; thence westwards to
Batorampon Point Light (7° 06' 6N, 121° 53' 8E); thence
west-south-westwards to Tanjung Bidadari.

GULF OF ADEN TRANSITS

The area enclosed by the Bab-el-Mandeb Strait, latitude
15°N, longitude 57°E and latitude 10°N, subject to the
conditions that the Entered Ship does not approach within
50 nautical miles of the north coast of Somalia, or within
100 nautical miles of the Socotra Archipelago, or within
200 nautical miles of the east coast of Somalia.

SOMALIA TRANSITS

Waters south of latitude 10°N and up to a distance of 250
nautical miles from the coast of Somalia, but excluding
waters up to 12 nautical miles from the coast of Kenya and
Tanzania, subject to the condition that the Entered Ship
does not approach within 200 nautical miles of the east
coast of Somalia.

INDIAN OCEAN TRANSITS

The Indian Ocean, outside the Gulf of Aden Transits and
Somalia Transits areas, south of latitude 15°N, north of
latitude 10°S and up to 600 nautical miles from the east
coast of Africa, but excluding waters up to 12 nautical
miles from the coasts of Kenya and Tanzania. The north-
eastern point of this area is measured from Ras Asir (11°50'
N, 051°, 16.9' E).

Reserves

The main reasons why the Association holds reserves are to meet its current and anticipated statutory solvency margins; to minimise the risks of matters that are outside the scope of solvency requirements materially affecting the Association's financial results; to minimise the effect of any material change in the Association's financial results on the level of contributions paid by Members; and to generate income sufficient, after tax, to cover the Association's overheads in any one year.

With these factors in mind, the Directors have decided the Association should maintain reserves within a range of between £14 million and £15.5 million. The Directors continue to monitor the Association's reserves and its financial results by reviewing accounts at every meeting.

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 reports from the Managers to the Board. It is the Association's policy not to confirm renewal to any Member with amounts overdue and no return of call is made to a Member if there are sums overdue to the Association from that Member.

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.

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

The Directors of the Association are shown on page 6.

Mr N Robertson resigned from the Board on 21 October 2008. The Directors would like to thank him for his contributions to the affairs of the Association during his four years' service as a Director. Mr A Davies was appointed a Director of the Association on 5 December 2008.

At the Annual General Meeting on 13 October 2009, Mr E C Rothwell and Mr C D Wannell will retire by rotation in accordance with Article 53 of the Articles of Association and, being eligible, offer themselves for reappointment. In addition, Mr A Davies, having been appointed during the year is obliged to retire and, being eligible, will seek reappointment at the Annual General Meeting.

The Board of Directors has a Directors' and Officers' liability policy in place. The cost of this insurance is met by the Association and included in administration costs.

Directors' Meetings

During the year, the Directors met formally three times: in April 2008, October 2008 and in January 2009. They also maintained contact with the Managers between meetings, in order to fulfil the general and specific responsibilities entrusted to them by the Members under the Association's Articles and Rules. The items considered and reported at the three meetings included:

Audit and regulatory matters: the auditors' report on the 2008 financial statements; a review of audit services; the annual return to the Financial Services Authority for 2008; a regulatory review; a review of the Association's Individual Capital Assessment.

Directors: election of the Chairman and Deputy Chairman; Directors' and Officers' liability insurance.

Finances: the year end financial statements for 2008; reserves policy and financial planning; investments and investment strategy.

Marketing Strategy: a business review, including a review of the Association's business objective, of developments in the Association's membership, the Combined Group and the insurance market generally; the Association's membership; participation in the Combined Group; broadening and diversifying the Association's membership; the risks associated with this process.

Underwriting: the closure of the 2008 Policy Year and return of call for 2008; reinsurance arrangements for the 2009 Policy Year; rates and terms to Members for 2009; Additional Premium Areas.

Other Matters: reports on meetings of the Managers of the Combined Group of War Risks Association; liabilities arising out of acts of terrorism; fair treatment of customers and service standards.

Auditors

The Association's auditors, Moore Stephens LLP, have indicated their willingness to continue in office and a resolution will be proposed for their reappointment in accordance with Section 385 of the Companies Act 1985 at the Annual General Meeting to be held on 13 October 2009.

Statement of Directors' Responsibilities

Company Law requires the Directors to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Association as at the end of the financial year, including the surplus or deficit of the Association for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume 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 enabling them to ensure that the Financial Statements comply with the Companies Acts. 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.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with Company Law in the United Kingdom.

R.G. Crawford
Chairman
30 April 2009

Report of the Independent Auditors to the Members of The United Kingdom Mutual War Risks Association Limited

We have audited the Financial Statements of the United Kingdom Mutual War Risks Association Limited for the year ended 20 February 2009 which are set out pages 12 to 24. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company'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 Company'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 Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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 the Financial Statements.

Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 20 February 2009 and of its results for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Financial Statements.

MOORE STEPHENS LLP

St Pauls House

Warwick Lane

London, EC4M 7BP

30 April 2009

The maintenance and integrity of The United Kingdom Mutual War Risks Association Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income and Expenditure Account

for the year ended 20 February 2009

	Note	2009 £'000	2008 £'000
Technical Account			
Gross premium written	4	4,338	3,741
Outward reinsurance premium	5	(3,959)	(3,751)
		379	(10)
Other technical income	6	129	79
Claims incurred, net of reinsurance			
- Claims paid			
Gross claims paid	15	(33)	(26)
Reinsurer's share		33	26
- Change in the provision for claims			
Gross outstanding claims	15	-	(250)
Reinsurers' share	15	-	250
		-	-
Acquisition costs	7 & 16	(8)	(8)
Administration costs	8	(433)	(333)
Balance of the technical account		67	(272)
Non Technical Account			
Balance of the technical account		67	(272)
Investment and other income	9	446	597
Gains on the realisation of investments		9	967
Unrealised losses on investments	3	(828)	(912)
(Deficit) / Surplus on ordinary activities before tax	3	(306)	380
Tax on ordinary activities	13(a)	-	(139)
(Deficit) / Surplus on ordinary activities after tax		(306)	241
Income and Expenditure account brought forward		14,993	14,752
Income and Expenditure account carried forward		14,687	14,993

All activities represent continuing activities. There are no recognised gains or losses other than the surplus for the year. The notes on pages 15 to 24 form an integral part of these Financial Statements.

Balance Sheet

As at 20 February 2009

	Note	2009 £'000	2008 £'000
Assets			
Other Financial Investments	10 & 14	15,652	16,155
Reinsurers' share of technical provisions			
Claims outstanding	15	250	251
Debtors			
Debtors arising out of direct insurance operations			
- Policy holders		170	295
Debtors arising out of reinsurance operations		166	55
Cash at bank and in hand	14	202	494
Prepayments	11	7	8
Accrued Interest – interest earned but not yet received on fixed interest securities		178	193
		16,625	17,451
Liabilities			
Reserves			
Income and Expenditure		14,687	14,993
Technical Provisions			
Claims outstanding	15	250	250
Creditors			
Creditors arising out of direct insurance operations			
		369	617
Creditors arising out of reinsurance operations			
		1,292	1,435
Other creditors including taxation	13(b)	4	137
		1,665	2,189
Accruals	12	23	19
		16,625	17,451

These Financial Statements were approved by the Board of Directors on 30 April 2009.

Signed on behalf of the Board of Directors:

Directors R G Crawford, J G M Freeman

Managers Thomas Miller War Risks Services Limited J A Culley

The notes on pages 15 to 24 form an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 20 February 2009

	Note	2009 £'000	2008 £'000
Net cash flow from operating activities			
Premium received		4,214	3,319
Reinsurance premium		(4,102)	(3,535)
Other operating income received		22	77
Claims paid		(3)	19
Other operating cash payments		(435)	(100)
	14	(304)	(220)
Cashflow Statement			
Net cash outflow from operating activities		(304)	(220)
Returns on investment			
Interest received		462	598
Taxation			
Taxation paid	13(c)	(133)	(184)
Increase in cash		25	194
Cashflows were Invested as Follows:			
Decrease in cash	14	(292)	(173)
Net portfolio investment			
Disposal of fixed interest securities		(3,962)	(1,474)
Purchase of other debt securities		4,587	-
Disposal of shares in investment trusts		-	(1,653)
Purchase of units in unit trusts		1,081	2,443
Increase / (Decrease) in UCITS - Cash		(1,389)	1,051
	14	317	367
Total		25	194

The notes on pages 15 to 24 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Constitution

The Association is incorporated in England as a company limited by guarantee and not having a share capital.

In the event of liquidation any net assets of the Association are to be distributed amongst such Members and former Members in such proportions and amounts as the Directors shall decide.

2. Accounting policies

a) Accounting basis

These Financial Statements have been prepared under the provisions of Section 255 of, and Schedule 9A to the Companies Act 1985. The accounts comply with applicable accounting standards. The Financial Statements are prepared on an annual basis under the historical cost convention as modified by the revaluation of investments and comply with all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 as amended 2006.

b) Policy Year accounting

Contributions and premiums, claims paid, reinsurance recoveries, reinsurance premiums and the management fee are allocated to the Policy Years to which they relate.

Investment income and interest, profit / losses on sale of investments, exchange gains / losses and general expenses are allocated to the current Policy Year.

c) Foreign currencies

Foreign currency assets and liabilities have been translated at the closing sterling exchange rate. The resultant difference is included in the non-technical account.

Revenue transactions are translated into sterling at the rate applicable for the month in which the transaction took place. Differences between closing exchange rates and the rates applying to outstanding forward currency contracts are also recognised.

All exchange gains and losses, whether realised or unrealised, have been included in other income or expenditure in the non-technical account.

d) Contributions and premiums

Contributions and premiums less returns are included in the Income and Expenditure Account when the policies incept; provisions are made for the return of contributions and premiums to Members.

Advance Contributions are the amounts payable in each Policy Year by the insured owners calculated on a percentage basis of the total sums insured.

Additional Premiums are those amounts payable as a result of certain areas being specified as Additional Premium Areas in accordance with the Rules of the Association and are charged if the insured ships should enter those Areas. Additional Premiums are recognised on a notification basis. Premiums for a period of cover after the Year End are treated as unearned.

e) Claims incurred

Where claims are incurred, legal costs and expenses covered by the Association are included. Claims incurred during the year are included whether paid, estimated or unreported.

The estimates for known outstanding claims are based on the best estimates and judgment of the Managers of the likely final cost of individual cases based on current information. The individual estimates are reviewed regularly and include this Association's share of other Association's pool claims. There has been no deterioration of claims in prior years.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

f) Reinsurance recoveries

The Directors are satisfied that the funds of the Association are adequately protected by reinsurance.

Reinsurance recoveries, including receipts and amounts due under these contracts on claims already paid and claims outstanding are included in the Income and Expenditure Account.

g) Reinsurance premiums

Reinsurance premiums payable by the Association are charged to the Technical Account on an accruals basis and, as noted above, to the Policy Year to which they apply.

h) Income from other investments

Income from other investments comprises interest received and accrued on bonds and bank deposits and distributions from equities.

i) Investments

Balance Sheet

Investments are valued at market value to comply with the Statement of Recommended Practice on Accounting for Insurance Business. It is not the intention of the Board to liquidate the portfolio and bonds will be held to maturity if considered appropriate.

Market value is calculated using the bid market price at the close of business on the date of the Balance Sheet. The cost of these investments is disclosed by way of note.

In the case of non-sterling investments, the market value is translated at the closing rate of exchange at the date of the Balance Sheet. The cost of non-sterling investments is translated into sterling at the date of purchase.

Non Technical Account

For investments purchased during the year, the unrealised gains and losses on the movement in their market value compared to the cost are shown in the Non Technical Account. Where the investments held have been purchased in a previous period, the unrealised gains and losses represent the movement in their market value from the start of the year to the end of the year.

j) Reserves

This amount is available to meet claims not passed or ascertained and liabilities which may arise under unexpired risks at the date of the Balance Sheet for which no specific provision has been made.

k) Deferred Taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the Balance Sheet date, unless such provision is not permitted by Financial Reporting Standard 19.

Notes to the Financial Statements (continued)

3. Note of historical cost surpluses and deficits

	2009	2008
	£'000	£'000
Reported surplus on ordinary activities before taxation	(306)	380
Change in adjustment of investments from book value to market value	(828)	(912)
Historical cost surplus on ordinary activities before taxation	(1,134)	(532)
Historic cost surplus for the year retained after taxation	(1,134)	(671)

4. Contributions and premiums

Contributions and premium have been charged as follows:

	2009	2008
	£'000	£'000
Advance contributions		
UK flagged vessels advance contributions	2,765	3,203
Foreign flagged vessels of existing Members	108	101
Total advance contributions	2,873	3,304
Return of Call		
UK flagged vessels advance contributions	(362)	(644)
Foreign flagged vessels of existing Members	(15)	(21)
Total return of call	(377)	(665)
Additional premiums	1,842	1,102
Total additional premiums	1,842	1,102
Total net contributions and premiums	4,338	3,741

At the Directors' meeting held on 13 January 2009, it was decided that a 10% return of call should be made to Members of the Advance Contributions due in respect of the 2008 Policy Year (2007 Policy Year: 20%) upon the closing of that year.

Additional Premiums are charged for cover in designated Additional Premium Areas as required by the reinsurance underwriters.

Notes to the Financial Statements (continued)

5. Reinsurance premiums

	2009 £'000	2008 £'000
Advance contributions for UK flagged vessels	2,065	2,570
Foreign flagged vessels of existing Members	80	79
Total reinsurance for advance contributions	2,145	2,649
Additional premiums	1,814	1,102
Total reinsurance for additional premiums	1,814	1,102
Total reinsurance premium	3,959	3,751

In the year under review, the Association was a party to a pooling agreement whereby its liabilities were pooled with three other similar Associations forming the Combined Group of War Risks Associations ('The Group'). The Group, which now comprises four Associations is protected against the incidence of claims by reinsurance treaties under which the Group is, for the 2008 Policy Year, fully reinsured without deductible up to £390 million or US\$600 million in respect of Rule 2 Part B Insurance of Hull, Machinery, etc. (Non Queens' Enemy Risks) and Rule 2 Part C Detention or Diversion Expenses Risks, but with the market automatic termination of cover clause. On the same basis, the Group is reinsured up to £325 million or US\$500 million in respect of Rule 2 Part D Protection and Indemnity Risks.

6. Other technical income

	2009 £'000	2008 £'000
Commission income	129	79

Additional Premiums are paid at 70% net of original rates agreed for individual breaches. A return is made to the Association to reduce the proportion payable to 65% net at expiry.

7. Acquisition costs

Acquisition costs are those costs incurred by the Managers in underwriting the risks insured. These include the costs of processing proposals through to the issuing of policies.

Notes to the Financial Statements (continued)

8. Administration costs

	2009	2008
	£'000	£'000
Managers' costs (Note 16)	255	240
Directors' fees	20	22
Directors' travel and meeting expenses	6	2
Directors' and Officers' insurance	10	8
Group secretariat expenses	9	8
Managers' travel and meeting expenses	5	3
Auditors' Remuneration	13	10
Auditors' Remuneration for other services	5	7
Other professional fees	56	(4)
Printing and Stationery (including Rule Books)	21	6
Communications – telephones, facsimile and postage	6	3
Bank charges	4	3
	410	308
Investment Management Fees	23	25
	433	333

The Managers' costs cover the provision of staff and offices, other than the costs of processing proposals and the issuing of policies, which have been disclosed under acquisition costs.

Auditors' Remuneration for other services includes the fee in relation to the controls audit.

No loans have been made to the Directors and none are contemplated.

Other than the Directors, the Association itself had no employees.

9. Investments and other income

	2009	2008
	£'000	£'000
Distributions from unit trusts	11	37
Interest on bonds and Government stocks	491	584
Interest on bank deposits	100	34
	602	655
Exchange loss arising during the year	(156)	(58)
	446	597

The Year End rates of exchange equivalent to £1 were:	2009	2008
US\$	1.4324	1.9406
Euro	1.1354	1.3249

Notes to the Financial Statements (continued)

10. Other financial investments

	Market Value 2009 £'000	Market Value 2008 £'000	Cost 2009 £'000	Cost 2008 £'000
Fixed interest securities	6,004	9,472	5,598	9,377
Other debt securities	4,791	-	4,587	-
Units in unit trusts	3,905	4,342	5,179	4,271
UCITS	947	337	947	337
Cash on Deposit	5	2,004	5	2,004
	15,652	16,155	16,316	15,989

All investment in unit trusts is in authorised unit trusts. Debt securities and other fixed income securities are all listed on a recognised stock exchange.

11. Prepayments

	2009 £'000	2008 £'000
Prepayments	7	8

12. Accruals

	2009 £'000	2008 £'000
Audit, accountancy and taxation	17	12
Accrued expenses	6	7
	23	19

Notes to the Financial Statements (continued)

13. Taxation

a) The charge in the Income and Expenditure Account represents:

	2009 £'000	2008 £'000
Corporation tax at 28% (2008 : 30%)		
Current year	-	139

The current taxation charge for the year is different from the standard rate of corporation tax in the UK (28%). The differences are explained below.

	2009 £'000	2008 £'000
Surplus on ordinary activities before taxation	(306)	380
Theoretical tax at UK Corporation Tax rate of 28% (2008 : 30%)	(86)	114
Effects of:		
- Balance on the technical account	(19)	82
- UK dividends not taxable	(3)	(7)
- Indexation allowance on gains	-	(31)
- Unutilised loss carried forward	108	-
- Marginal relief	-	(23)
- Non taxable item	-	(3)
- Prior year adjustment	-	7
Actual current tax charge	-	139

b) Creditors

	2009 £'000	2008 £'000
Corporation tax payable	-	133
Other taxation and social security	4	4
	4	137

c) Tax Cash Flow

	2009 £'000	2008 £'000
Taxation paid – per cash flow statement	133	184

Notes to the Financial Statements (continued)

14. Cash flow Statement

Movement in cash, deposits and investments

	As at 20/02/2008	Cash flow	Changes to market value, currencies and other changes	As at 20/02/2009
	£'000	£'000	£'000	£'000
Cash at bank	494	(292)	-	202
Fixed interest securities	9,472	(3,962)	494	6,004
Other debt securities	-	4,587	204	4,791
Units in unit trusts	4,342	1,081	(1,518)	3,905
UCITS – Cash	337	610	-	947
Cash on Deposit	2,004	(1,999)	-	5
	16,155	317	(820)	15,652

Reconciliation of the balance on the technical account to the net cash (outflow) / inflow from operating activities

	2009 £'000	2008 £'000
Balance on the technical account	67	(272)
Increase in technical provisions for claims	-	250
Decrease / (Increase) in reinsurers' share of technical provision for claims	1	(231)
Decrease / (Increase) in debtors	14	(294)
(Decrease) / Increase in creditors	(387)	82
Decrease in prepayments	1	245
Net cash outflow from operating activities	(304)	(220)

Notes to the Financial Statements (continued)

15. Claims

Technical account

	2009 £'000	2008 £'000
Claims paid		
Claims paid to policyholders	33	26
Reinsurance recoveries received from the Combined Group	(29)	(25)
	4	1
Change in the provisions for claims		
- Movement in the year		
Gross claims	-	250
Reinsurance	-	(250)
	-	-

Balance sheet

	2009 £'000	2008 £'000
Technical provisions		
- Claims outstanding		
Gross amount due to the policyholder	250	250
Reinsurers' share of technical provisions		
- Claims outstanding	250	251

16. Managers' remuneration

The Managers' remuneration has been allocated to the appropriate expense headings. The total comprises:

	2009 £'000	2008 £'000
Acquisition costs	8	8
Administration	255	240
	263	248

Notes to the Financial Statements (continued)

17. 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 the Directors are former or current representatives or agents of Member companies and, other than the insurance and Member interests of the Directors' companies, the Directors have no financial interests in the Association.

18. Location and nature of business

All operations are direct war risks insurance written within the United Kingdom. All business is classified as marine, aviation and transport.

Managers and Officers

Managers

Thomas Miller War Risks Services Limited

Directors

J.A. Culley

I.R. Jarrett

A. Jenkinson Resigned 31 July 2008

A.Ward

Secretary

I.R. Jarrett

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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

BLP, Thomas Miller Claims Management, Thomas
Miller Investment, Thomas Miller Risk Management

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