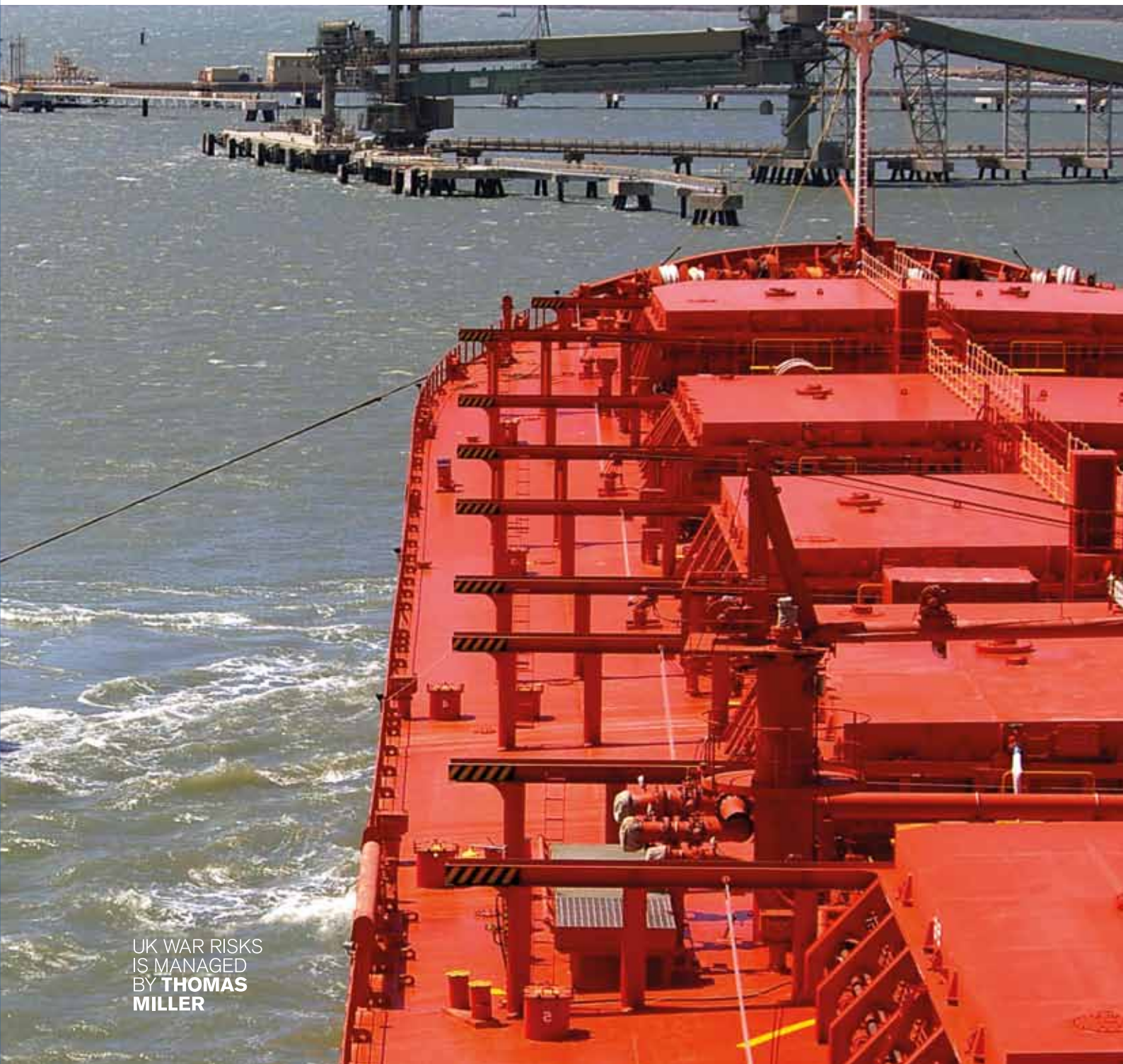


UK WAR RISKS 

Directors' Report and Financial Statements

For the year ended 20 February 2011



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

872

Total Entered Value

\$17.6 billion

End of Year Reserves

\$29.5 million

For the year ended 20 February 2011

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* These sections make up the Directors' report

Chairman's Statement

In his closing remarks in last year's statement, my predecessor, Bob Crawford, advised of the loss of the Association's largest Member. It is therefore especially pleasing to be able to report that, despite this, the 2010 policy year generated a surplus for the Association, serving to strengthen its reserves further.

The fall in value of entered ships during the 2010 policy year, resulting from the above mentioned withdrawal, was offset by both the entries of new Members and deliveries of new ships to existing Members. In overall terms the number of entered ships consequently only decreased by a marginal amount. Following the decision to open the Club to an international Membership from February 2009, it is encouraging to note that new, internationally based Members have recognised the competitive rating, stability and strong service ethos that the Association offers and prides itself upon.

The Directors decided to change the reporting currency to US dollars from 20 February 2010. Whilst the Association remains domiciled in the UK and regulated by the FSA, the change from UK Sterling to US dollars reflects the fact that most of the Association's premium income is in dollars; as is the ship valuation currency of most of the Membership in common with much of the shipping industry. The majority of the Association's investments have been converted into US dollars dominated investments and cash.

Other financial developments in the year included continued preparation for the impending Solvency II regime, which is designed to provide extra reassurance to policyholders that insurance claims will be paid. The Association's reserves comfortably exceed the level of reserves that are estimated to be required under Solvency II and work will continue to ensure the Association will be fully compliant with the requirements of the regime.

The make up of the Board also changed this year. Following the retirements of Bob Crawford on 14 April 2010 and John Freeman on 20 February 2010, two new Directors, Hugh Scheffer and Philip Johnson, were appointed and I would like to take this opportunity to welcome them as Directors of the Association, as well as to thank Bob and John for their years of service as Members of the Board.

The last twelve months has regrettably seen the Somali piracy situation continue to be a major issue for the shipping industry. The pirates' area of operation increased yet further, with frequent reports of attacks well over 1,000 miles from the Somali coast. As a result, the Indian Ocean Additional Premium area increased in size and now extends to include part of the Arabian Sea and the Gulf of Oman. The cost and duration of piracy incidents also increased.

One ship entered in the Association was attacked in the Indian Ocean and boarded by pirates. Fortunately, the crew were able to withdraw to a citadel which the pirates were unable to penetrate, leaving the ship before naval forces arrived to give assistance. The precautions taken by the owners and crew illustrate the importance of taking risk mitigation measures to deter piracy.

The summary of Best Management Practices ("BMP") to deter piracy, which the Association strongly endorses, remains an essential reference document for owners of ships transiting the Indian Ocean and Gulf of Aden Additional Premium ("AP") area. In June 2010, BMP3 was published, updating guidance given in the previous version of the document, to assist companies and ships in avoiding and deterring attacks by pirates. It includes sections on:

- Risk assessment;
- Typical attack profiles;
- Planning by companies and masters;
- Pre-transit and voyage planning;
- Defensive measures;
- In transit operations; and
- Steps to take if the ship is attacked or boarded.

A copy of BMP3 can be downloaded from the Association's website. It should be read and implemented by all Members of the Association intending any of their entered vessels to transit the Indian Ocean / Arabian Sea / Gulf of Aden / Gulf of Oman and Southern Red Sea AP areas.

Liaison with naval forces is an essential part of good management practice. Members should register with MSC-HOA as well as contacting UKMTO and MARLO as outlined in BMP3. Members should note that failure to implement BMP3 and / or a failure to register with MSC-HOA and UKMTO, could potentially affect their cover in the event of a claim.

Recent events in Egypt, Libya and other areas of the Middle East highlight the potential for geo-political instability. It remains to be seen what the outcome of these events will be, particularly with regard to Libya, which became an AP area with effect from 18 March 2011. Although there have been no attacks reported on shipping in these areas as yet, the potential for loss or damage to ships is ever present. There is thus an even more pressing need for high quality war risks insurance cover to respond should this change. The Association is well placed to respond to this need.

C.D. Wannell
Chairman

Review of 2010

Market Review

Two of the prominent marine war risks issues during the 2010 policy year attracted considerable comment and coverage in the news and wider media. The activities of Somali pirates and the imposition of sanctions against Iranian interests were regularly featured in the trade and general news. Other countries were also affected by conflict or political instability.

During the 2010 policy year, however, Somalia was the issue that caused most concern. According to data provided by EU NAVFOR, the percentage of ships attacked by Somali pirates that were actually seized fell slightly during the 2010 policy year. However, the overall increase in the number of attacks meant that the number of ships seized in the 2010 policy year was more than in the 2009 policy year, despite the increased attention of naval forces.

The striking feature of pirate activity of the 2010 policy year was the range at which pirates were able to operate. By early December, pirate groups were active well over 1,000nm from the coast of Somalia and, in some cases, less than 300m from India.

It was not surprising that, as a result, the Somalia / Yemen / Gulf of Aden / Indian Ocean transits Additional Premium Area was extended. In August 2010, the Southern Red Sea and Eritrea were added. With effect from January 2011, the area was extended further eastwards and northwards, so that it included parts of the Arabian Sea and the Gulf of Oman, as well as the Indian Ocean west of 78° east. Ships entered in the Association performed a total of 160 transits of the area during the year. Towards the end of the 2010 policy year, one entered ship was attacked in the Indian Ocean and boarded by pirates, believed to have been operating from a hijacked tanker, which they were using as a “mothership”. The owners had deployed razor wire and fire hoses to deter pirates who, nevertheless, boarded the ship. The crew had been prepared for a pirate attack and had in fact carried out a drill a few days before the attack took place. The entire crew withdrew to a citadel, which had been prepared on the engine room deck, from where control of the ship’s engines was maintained and the Master was able to communicate with the owners. The pirates abandoned the ship and the crew left the citadel once naval forces had attended and confirmed no pirates remained on board.

While there is no single action or procedure that will make a ship entirely secure against pirate attack, it is important for all Ship owners to take appropriate steps to mitigate this risk. During the year, the third version of Best Management Practices (“BMP”) to deter piracy was published, updating the advice and guidance given in

previous versions. Club circular C6-2010 drew BMP3 to the attention of the whole Membership, emphasising that the Association endorses BMP3 and strongly encourages Members to follow the recommendations in that document. Members were reminded that a failure to implement BMP3 and/or to liaise with naval forces through MSCCHOA and UKMTO, could potentially affect cover in the event of a claim on the Association.

The issue of sanctions generally assumed a more prominent profile during the 2010 policy year. The EU, UK and US authorities all issued economic or trade sanctions, those targeting Iranian and Somali interests being the most relevant from the Association’s point of view. Some of the legislation prohibited the Association from providing insurance and paying claims in certain circumstances. As breaches of sanctions involved potential criminal liability, as well as damages to reputation, the Association took steps to comply, in order to protect the interests of the Association and also of the Membership as a whole. In July the US Comprehensive Iran Sanctions Accountability and Investment Act came into force.

With effect from August 2010, Members’ terms and conditions of insurance were made subject to a sanctions limitation and exclusion cause. At the Annual General Meeting held in October 2010, an amendment to the rules was approved, incorporating the clause, which continues to apply from 20 February 2011 onwards. In December 2010, the Association provided Members with guidance on good practice regarding compliance with sanctions against Iran.

While the Gulf of Aden and Indian Ocean were the main focus for tension, there was conflict elsewhere during the year. Following a disputed presidential election in the Ivory Coast, tensions increased, leading to the possibility of intervention from the Economic Community of West African States. There was a marked increase of tension on the Korean peninsula following an exchange of fire between naval forces off the island of Yeon Pyeong. In January 2011, civilian demonstrations led to a change of government in Tunisia, followed by protests and demonstrations in Egypt, which led to the resignation of President Mubarak. The political turmoil did not, however, have a significant effect on trade or transport, with the Suez Canal remaining open and no maritime incidents being reported. These developments also increased a sense of instability in the Middle East.

Finances

During the year, the Association changed its reporting currency from Sterling to US Dollars. The table below compares the key financial information from the 2010 financial year with the corresponding figures from the 2009 financial year, which have been restated in US Dollars.

All figures in \$000s	2010	2009
Gross premium written	4,509	9,984
Outward reinsurance premium	(3,756)	(7,332)
Other technical income	248	207
Acquisition and administration costs	(1,232)	(1,346)
Operating (deficit) / surplus	(231)	1,513
Net investment income after tax	3,287	2,338
Surplus for the year after tax	3,056	3,851
Reserves at the year end	29,549	26,493

For the 2010 policy year, the Association increased the amount of brokerage paid. Brokerage on Advance Contributions, less any discounts for hull interest or restricted trading, was increased to 20%. Commission calculated on the same basis was paid to the Member where ships were entered directly. The increase in brokerage meant that acquisition and administration costs were not reduced in proportion to the reduction in gross premium written for the year, compared to the 2009 policy year.

The surplus for the 2010 policy year meant that the level of reserves increased to \$29.5 million, remaining comfortably above the current statutory solvency margin and leaving the Association very well positioned as regards the capital requirements of the Solvency II regime.

There was a significant reduction in gross premium, following the decision of the Association's largest single Member not to renew for the 2010 policy year. There was, however, a corresponding reduction in reinsurance costs. After allowing for the 10% return of call given to renewing Members, the Advance Contribution income for the 2010 policy year amounted to \$1.25 million (27.7% of total premium written) with income from additional premiums amounting to \$3.26 million (72.3%). The increased proportion of additional premium income reflects the relatively large number of declarations made in respect of Gulf of Aden and Indian Ocean transits.

As a result, there was a small operating deficit for the year but, after allowing for investment income, there was a post tax surplus of \$3.06 million.

Membership

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

Policy Year	2010	2009	2008
Number of ships	872	890	877
Total entered value (£ billions)	17.6	35.6	35.0

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.

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 11 October 2011 at 11.00am for the following purposes:-

- To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2011 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

Secretary
19 April 2011

Directors

C.D. Wannell (Chairman – elected 14 April 2010)
BP Oil International Limited, London

T. Stage (Deputy Chairman – elected 12 October 2010)
SVITZER A/S, Copenhagen

A. Davies
Shell International Limited, London

P. Johnson (appointed 21 March 2011)
BG Group plc, Reading

E.C. Rothwell
Irish Continental Group plc, Dublin

H. Scheffer (appointed 14 October 2010)
Unicorn Shipping, a division of Grindrod Shipping Pte Ltd, Singapore

Directors' Report

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2011.

Principal Activity

During the year the Association's principal activity was the insurance of merchant ships against war risks. Since February 2009, membership of the Association has been open not only to UK owned and UK flagships, but also to ships with no connection to the UK. At noon on 20 February 2011, 872 ships, with a total value of \$17.6 billion, were entered in the Association. The corresponding figures for 20 February 2010 were 890 ships, with a total value of \$35.6 billion being entered.

In October 2010, the Directors decided that the Association should change its reporting currency from sterling to US dollars. They reached this decision having noted that the majority of the Association's income was earned in dollars and having established that the change would not expose the Association to any material currency risk. The year end Financial Statements are, therefore, in US dollars, and last year's comparative figures have been restated using the exchange rate as at 20 February 2010.

Entry of ships in the Association is recorded in several currencies, which have been converted into dollars at exchange rates applicable for the year and agreed with the Association's reinsuring underwriters. In the year under review, as in previous years, the Association's reinsurance was not subject to a deductible, but did include the market automatic termination of cover clause.

Additional Premium Areas

As at 20 February 2011, the Additional Premium Areas pursuant to Rule 19 were as set out below:

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

AFRICA

Eritrea (South of 15° N)
Djibouti
Ivory Coast
Nigeria including terminals
Somalia

EUROPE

Georgia

INDIAN OCEAN / ARABIAN SEA / GULF OF ADEN / GULF OF OMAN / SOUTHERN RED SEA TRANSITS

The waters enclosed by the following boundaries:

On the north-west, by the Red Sea, south of Latitude 15° N
on the west of the Gulf of Oman by Longitude 58° E on the east, Longitude 78° E and on the south, Latitude 12° S

Excepting coastal waters of adjoining territories up to 12 nautical miles offshore unless otherwise provided, and 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.

INDONESIA / MALAYSIA

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

MIDDLE EAST

Iran
Iraq
Israel
Lebanon
Saudi Arabia
Yemen

PHILIPPINES

Mindanao, between the ports of Polloc Harbour and General Santos inclusive
Sulu Archipelago including Jolo

SOUTH AMERICA

Venezuela

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, and having reviewed the Association's reserving policy during the 2010 policy year, the Directors have decided the Association should maintain reserves within a range of between \$23 million and \$25.5 million. The Directors continue to monitor the Association's reserves and its financial results by reviewing management 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 in addition, by ensuring that no single underwriter carries more than a 10% line. The terms of the reinsurance contract give the Association the right to remove any underwriter that loses its 'A' rating. The Board reviews reinsurance annually before renewal.

During the year, the Directors reviewed the Association's risk management policies and procedures in the context of Solvency II preparations. They agreed various amendments and will continue the review process during the 2011 policy year.

Directors

The Directors of the Association are shown on page 6.

Mr C.D. Wannell was elected Chairman in April 2010 and Mr T Stage was elected Deputy Chairman in October 2010.

Mr H. Scheffer and Mr P. Johnson were appointed as Directors of the Association in October 2010 and March 2011 respectively.

At the Annual General Meeting on 11 October 2011, Messrs C.D. Wannell and A. Davies will retire by rotation in accordance with Article 48 of the Articles of Association and, being eligible, both will put themselves forward for reappointment.

At the Annual General Meeting, Messrs H. Scheffer and P. Johnson, having been appointed as Directors during the previous year, will retire in accordance with Article 53 of the Articles of Association and, being eligible, both will put themselves forward for reappointment.

During the year, the Directors reviewed and amended their policy and procedures for appointment to the Board to ensure they complied with the “fit and proper person” test as well as with the requirements of the Articles of Association.

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 2010, October 2010 and in January 2011. 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 2010 financial statements; the annual return to the Financial Services Authority for the year ending 20 February 2011; a regulatory review; a review of the Association’s Individual Capital Assessment.

Directors: election of the Chairman and Deputy Chairman; criteria for appointment and reappointment of Directors; Directors’ and Officers’ liability insurance.

Finances: the financial statements for the year ended 20 February 2011; reserves policy and financial planning; the Association’s reporting currency; investments and investment strategy, including an investment policy review.

Underwriting: the closure of the 2010 policy year and return of call for the 2010 policy year; reinsurance arrangements for the 2011 policy year; rates and terms to Members for the 2011 policy year.

Solvency II: on-going review of the implementation plans and proposals; completion of QIS 5; review of the Association’s business plan and risk tolerance; confirmation of the Association’s organization and management.

Other Matters: Additional Premium Areas; piracy in the Gulf of Aden and Indian Ocean; piracy deterrents and avoidance measures; Best Management Practices; EU, UK and US sanctions legislation generally; sanctions against Iran.

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 489 of the Companies Act 2006 at the Annual General Meeting to be held on 11 October 2011.

Statement of Directors’ Responsibilities

The directors are responsible for preparing the Directors’ Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association’s transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the Association’s auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

C.D. Wannell
Chairman
19 April 2011

Independent Auditor's Report 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 2011, which are set out on pages 17 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 20 February 2011 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Simon Gallagher (Senior Statutory Auditor)
for and on behalf of Moore Stephens LLP,
Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

19 April 2011

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 2011

	Note	2011 \$'000	2010 \$'000
Technical Account			
Gross premium written	3	4,509	9,984
Outward reinsurance premium	4	(3,756)	(7,332)
		753	2,652
Other technical income	5	248	207
Claims incurred, net of reinsurance			
- Claims paid			
Gross claims paid	15	(8)	(684)
Reinsurers' share		8	684
- Change in the provision for claims			
Gross outstanding claims	15	(40)	336
Reinsurers' share	15	40	(336)
		-	-
Acquisition costs	6	(284)	(529)
Administration costs	7	(948)	(817)
Balance of the technical account		(231)	1,513
Non Technical Account			
Balance of the technical account		(231)	1,513
Investment and other income	8	1,219	597
Gains / (losses) on the realisation of investments		2,799	(103)
Unrealised (losses) / gains on investments		(245)	2,405
Surplus / (deficit) on ordinary activities before tax		3,542	4,412
Tax on ordinary activities	12(a)	(486)	(562)
Surplus on ordinary activities after tax		3,056	3,850
Income and Expenditure account brought forward		26,493	22,643
Income and Expenditure account carried forward		29,549	26,493

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 2011

	Note	2011 \$'000	2010 \$'000
Assets			
Other Financial Investments	9	29,753	25,951
Reinsurers' share of technical provisions			
Claims outstanding	15	90	50
Debtors			
Debtors arising out of direct insurance operations			
- Policy holders		400	244
Debtors arising out of reinsurance operations		179	307
Cash at bank and in hand	14	632	907
Prepayments	10	11	11
Accrued Interest – interest earned but not yet received on fixed interest securities		119	230
		31,184	27,700
Liabilities			
Reserves			
Income and Expenditure		29,549	26,493
Technical Provisions			
Claims outstanding	15	90	50
Creditors			
Creditors arising out of direct insurance operations		77	122
Creditors arising out of reinsurance operations		795	438
Other creditors including taxation	12(b)	490	567
		1,362	1,127
Provisions	13	143	-
Accruals	11	40	30
		31,184	27,700

These Financial Statements were approved by the Board of Directors on 19 April 2011.

Signed on behalf of the Board of Directors:

Directors C.D. Wannell T. Stage

Managers A.E. Ward Thomas Miller War Risks Services Limited

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

Cash Flow Statement

for the year ended 20 February 2011

	Note	2011 \$'000	2010 \$'000
Net cash flow from operating activities			
Premium received		4,308	9,555
Reinsurance premium		(3,395)	(8,887)
Other operating income received		247	282
Claims recovered / (paid)		128	(127)
Other operating cash payments		(1,225)	(1,350)
	14	63	(527)
Cashflow Statement			
Net cash outflow from operating activities			
Returns on investment			
Interest received		1,473	641
Taxation			
Taxation paid	12(c)	(562)	-
Increase in cash		974	114
Cashflows were Invested as Follows:			
(Decrease) / increase in cash	14	(275)	595
Net portfolio investment			
Disposal of fixed interest securities		(221)	(3,962)
Purchase of other debt securities		198	4,587
Disposal of units in unit trusts		(1,093)	(369)
Increase / (decrease) in UCITS		3,520	(77)
Increase / (decrease) in absolute return funds		2,000	-
Increase / (decrease) in cash on deposit		18	-
	14	1,249	(481)
Total		974	114

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 and Wales 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) Change in Local Currency

On 20 February 2010 the Association changed its local currency, as defined in paragraph 39 of SSAP 20, from Pounds Sterling to US Dollars. The change in local currency reflects the fact that a greater portion of the Association's transactions are made in US Dollars. In particular the majority of premiums are received in US Dollars, the majority of reinsurance premiums are paid in US Dollars and now the majority of assets are kept in US Dollar-denominated investments and cash.

The comparatives for the year ended 20 February 2010 have accordingly been retranslated from the previously reported sterling amounts using a conversion rate of GBP 0.6487 : \$1. There have been no other changes to the previously reported amounts at 20 February 2010.

b) Accounting basis

The financial statements are prepared in accordance with the provisions of Section 396 to the Companies Act 2006 and Schedule 3 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulation 2008 (SI 2008/410), and in compliance with applicable accounting standards and the ABI SORP Accounting for Insurance Business issued in December 2005 (as amended in December 2006).

c) 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.

d) Foreign currencies

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

Revenue transactions are translated into US dollars 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.

e) 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.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

f) 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.

g) 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.

h) 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.

i) Income from other investments

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

j) 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 US Dollar investments, the market value is translated at the closing rate of exchange at the date of the Balance Sheet. The cost of non US Dollar investments is translated into US Dollar 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.

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. Contributions and premiums

Contributions and premium have been charged as follows:

	2011 \$'000	2010 \$'000
Advance contributions		
UK flagged vessels advance contributions	1,358	6,885
Foreign flagged vessels of existing Members	-	-
Total advance contributions	1,358	6,885
Return of Call		
UK flagged vessels advance contributions	(109)	(120)
Foreign flagged vessels of existing Members	-	-
Total return of call	(109)	(120)
Additional Premiums	3,260	3,219
Total Additional Premiums	3,260	3,219
Total net contributions and premiums	4,509	9,984

At the Directors' meeting held on 11 January 2011, it was decided that a 10% return of call should be made to Members of the Advance Contributions due in respect of the 2010 policy year (2009 policy year: 10%) 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)

4. Reinsurance premiums

	2011 \$'000	2010 \$'000
Advance contributions for UK flagged vessels	755	4,436
Foreign flagged vessels of existing Members	-	-
Total reinsurance for advance contributions	755	4,436
Additional Premiums	3,001	2,896
Total reinsurance for Additional Premiums	3,001	2,896
Total reinsurance premium	3,756	7,332

The Association is protected against the incidence of claims by reinsurance contracts and the Association is, for the 2010/2011 policy year, fully reinsured without deductible up to £390 million, US\$950 million (increased from \$800 million with effect from 1 November 2010), CAD780 million or EUR510 million in respect of Rule 2 Part A Insurance Hull, Machinery etc., Rule 2 Part B Detention or Diversion Expenses Risks, Rule 3 Freight, disbursements and/or increased value, or (if otherwise applicable) Rule 2, Part D, Queen's Enemy Risks but with the market automatic termination of cover clause. On the same basis, the Group is reinsured up to £325 million, US\$500 million, CAD650 million or EUR425 million in respect of Rule 2 Part C Protection and Indemnity Risks.

5. Other technical income

	2011 \$'000	2010 \$'000
Commission income	248	207

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.

6. 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.

	2011 \$'000	2010 \$'000
Brokerage on premiums	272	517
Other acquisition costs	12	12
Total reinsurance premium	284	529

Notes to the Financial Statements (continued)

7. Administration costs

	2011 \$'000	2010 \$'000
Managers' costs (Note 16)	723	593
Directors' fees	25	33
Directors' travel and meeting expenses	19	10
Directors' and Officers' insurance	13	13
Group secretariat expenses	-	15
Managers' travel and meeting expenses	10	6
Auditors' Remuneration	26	22
Auditors' Remuneration for other services	7	4
Other professional fees	36	41
Printing and Stationery (including Rule Books)	26	26
Communications – telephones, facsimile and postage	8	12
Bank charges	7	7
Sundry Expenses	11	-
	911	782
Investment Management Fees	37	35
	948	817

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 a regulatory presentation to the Board.

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

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

8. Investments and other income

	2011 \$'000	2010 \$'000
Distributions from unit trusts	34	7
Interest on bonds and Government stocks	498	634
	532	641
Exchange gains / loss arising during the year	687	(44)
	1,219	597

The Year End rates of exchange equivalent to \$1 were:

	2011	2010
US\$	1.0000	1.0000
Euro	0.7333	0.8765
Sterling	0.6170	0.6487
Chinese Yuan Renminbi	6.5745	6.8353

Notes to the Financial Statements (continued)

9. Other financial investments

	Market Value 2011 \$'000	Market Value 2010 \$'000	Cost 2011 \$'000	Cost 2010 \$'000
Fixed interest securities	5,454	8,644	5,539	8,723
Corporate bonds	8,180	7,738	7,886	7,586
Units in unit trusts	9,098	8,086	7,926	6,866
UCITS	4,995	1,475	4,995	1,382
Absolute return funds	2,000	-	2,000	-
Cash on Deposit	26	8	26	8
	29,753	25,951	28,372	24,565

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.

10. Prepayments

	2011 \$'000	2010 \$'000
Prepayments	11	11

11. Accruals

	2011 \$'000	2010 \$'000
Audit, accountancy and taxation	26	26
Accrued expenses	14	4
	40	30

Notes to the Financial Statements (continued)

12. Taxation

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

	2011 \$'000	2010 \$'000
Corporation tax at 28%		
Current year	486	562

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.

	2011 \$'000	2010 \$'000
Surplus on ordinary activities before taxation	3,542	4,412
Theoretical tax at UK Corporation Tax rate of 28%	992	1,235
Effects of:		
- Balance on the technical account not allowable	54	(433)
- UK dividends not taxable	(10)	(2)
- Foreign Exchange differences not taxable	(95)	-
- Unrealised gains taxable on disposal of assets	-	(341)
- Indexation allowance on gains	(176)	(8)
- Unrealised loss on equities not allowable	22	-
- Unutilised loss carried forward	-	217
- Brought forward losses utilized	(293)	(101)
- Small companies relief	(8)	(5)
Actual current tax charge	486	562

b) Creditors

	2011 \$'000	2010 \$'000
Corporation tax payable	486	562
Other taxation and social security	4	5
	490	567

c) Tax Cash Flow

	2011 \$'000	2010 \$'000
Taxation paid – per cash flow statement	562	-

Notes to the Financial Statements (continued)

13. Provisions

The provision relates to forward currency contracts held by the Association. It has been valued using year end exchange rates, however the gain or loss generated by the contract will depend on future exchange rates.

14. Cash flow Statement

Movement in cash, deposits and investments

	As at 20/02/2010	Cash flow	Changes to market value, currencies and other changes	As at 20/02/2011
	\$'000	\$'000	\$'000	\$'000
Cash at bank	907	(275)	-	632
Fixed interest securities	8,644	(6,586)	3,397	5,455
Other debt securities	7,738	3,390	(2,948)	8,180
Units in unit trusts	8,086	(1,093)	2,104	9,097
UCITS	1,475	3,520	-	4,995
Absolute return funds	-	2,000	-	2,000
Cash on Deposit	8	18	-	26
	25,951	1,249	2,553	29,753

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

	2011 \$'000	2010 \$'000
Balance on the technical account	(231)	1,512
Increase / (decrease) in technical provision for claims	40	(336)
(Increase) / decrease in reinsurers' share of technical provision for claims	(40)	336
Increase in debtors	(28)	(33)
Decrease / (increase) in creditors	322	(2,006)
Net cash inflow / (outflow) from operating activities	63	(527)

Notes to the Financial Statements (continued)

15. Claims

Technical account

	2011 \$'000	2010 \$'000
Claims paid		
Claims paid to policyholders	8	684
Reinsurance recoveries received	(136)	(557)
	(128)	127
Change in the provisions for claims		
- Movement in the year		
Gross claims	(40)	336
Reinsurance	40	(336)
	-	-

Balance sheet

	2010 £'000	2009 £'000
Technical provisions		
- Claims outstanding		
Gross amount due to the policyholder	90	50
Reinsurers' share of technical provisions		
- Claims outstanding	90	50

16. Managers' remuneration

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

	2011 \$'000	2010 \$'000
Acquisition costs	12	12
Administration	723	593
	735	605

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

A.E. Ward

K. Halpenny

Secretary

K. Halpenny

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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
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