UK WAR RISKS

FIRST CLASS SERVICE

Directors' Report and Financial Statements for the year ended 20 February 2014

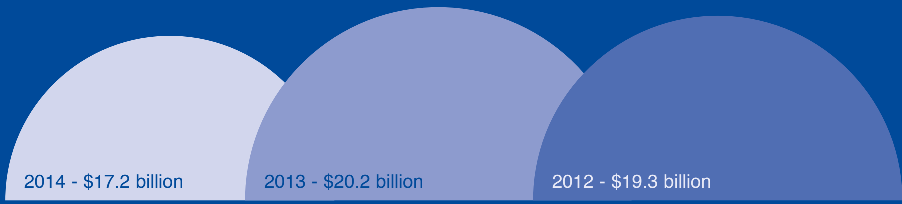
UK WAR RISKS IS MANAGED BY **THOMAS MILLER**

UK WAR RISKS AT A GLANCE

For the year ended 20 February 2014

Total Entered Value

$17.2bn



Total Number of Ships Entered

886

International Membership

Since 2009, our membership has been international – open to ship owners with no connection to the UK.

'Red Ensign'	56%
International	44%

End of Year Reserves

$32.6m

Surplus for the Year

$1.3m

Return of Call

15%

A- Rating

Awarded a financial strength rating of "A- stable" by AM Best

A- stable

AP Areas

South America
Venezuela

Africa
Benin
Eritrea
Gulf of Guinea
Libya
Nigeria
Somalia
Togo
Southern Red Sea
Gulf of Aden / Gulf of Oman
Arabian Sea / Indian Ocean

Middle East
Iran
Iraq
Israel
Lebanon
Saudi Arabia
Syria
Yemen

South East Asia
Balikpapan
North East Coast of Borneo
Jakarta
Philippines

Pirate Activity

264

Despite 264 actual and attempted pirate attacks on merchant ships in 2013, none were successful against UK War Risks Members' ships.

The first international war risks mutual

We aim to be different –
the first international war risks mutual.

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* These sections make up the Directors' Report

Registered Number: 127262

DIRECTORS

T Stage (Chairman)
Svitzer A/S, Copenhagen

E F Andre
Suisse-Atlantique
Societe de Navigation Maritime SA, Renens

A Davies (Deputy Chairman)
Shell International Limited, London

E C Rothwell — Retired 15 October 2013
Irish Continental Group plc, Dublin

H Scheffer
Unicorn Shipping,
Division of Grindrod Shipping Pte Ltd,
Singapore

R D Burmeister — Appointed 9 April 2013
James Fisher Everard Limited, London

CHAIRMAN'S STATEMENT

A strong financial position

As I reported last year, BP Shipping withdrew their fleet from the Association at the 2013 renewal. It is pleasing to note, that despite this, the Association achieved a sound financial result at the year end with reserves increasing further to $32.6 million. The result was boosted by a strong investment return, driven mostly by the Association's holdings of US equities. This enabled rates for 2014 to be reduced by 20 per cent in 2014 and a 15 per cent return of call to Members being made in addition. This return serves to illustrate one of the benefits of mutuality – that the reserves belong to the Members and the Association is not merely driven by a profit motive but rather a need to remain financially strong and stable and act in Members' best interests.

The Association's strong financial position was recognised by the ratings agency AM Best last year, who awarded the Association an "A-" financial strength rating with a "stable" outlook (this is the highest grade that can be awarded to an insurer of the Association's size). AM Best commented favourably on the Association's "excellent risk-adjusted capitalisation," "good operating performance" and "good business profile." The Association remains committed to preserving this strength and stability whilst offering highly competitive terms to the membership.

The decline in Somali pirate activity continued in 2013, thanks to the continued use of armed guards, effective application of BMP 4 and the efforts of naval forces in the region. However, pirate activity has not ceased entirely and I would urge Members to remain vigilant against the threat of pirate attacks in the Gulf of Aden and Indian Ocean.

In contrast, and although the Association was fortunate in not incurring any claims in 2013, piracy off West Africa is an ever-present and increasing threat. Although hijacks of ships in this area are shorter in duration than those carried out by Somali pirates, they are usually more violent and often result in serious injuries, or even death of crew members. Restrictions on the use of non-local armed guards hinder Members' anti-piracy efforts in the Gulf of Guinea. The Association stands ready to assist Members whose ships are attacked or hijacked in this, or indeed any other area.

Although overall loss activity in the war risks market has diminished in the last couple of years, recent instability in the Crimea highlights how quickly the geo-political landscape can change. The Association remains committed to serving Members' needs, whatever the future may hold.

T Stage
Chairman
15 April 2014

INTERNATIONAL

Open to an international membership

In 1913, the membership of the Association was exclusively UK flagged. Over time, insurance and shipping became global businesses and the membership developed to include ships that were UK owned but not UK flagged. Since 2009, membership has been international – open to ship owners with no connection to the UK.

The table below compares the number of ships entered in the Association and the total entered value over the last three years. The fall in number of ships entered and the associated total entered value is attributable to BP's withdrawal from the Association at 20 February 2013; the membership otherwise remaining stable.

All figures as of 20 February 2014

The Association will continue diversifying membership, welcoming more Members from outside the UK and making membership more international.

WAR RISKS

Depth of expertise

Although the level of Somali pirate activity continued to reduce in 2013, the piracy threat has not been eradicated. The use of armed guards, effective application of BMP 4 and the Naval Forces' anti-piracy efforts in the Gulf of Aden and Indian Ocean have been responsible for the lack of pirate success in seizing ships for ransom. The level of pirate activity off the West African coast increased, with ships being seized, some cargo being stolen and crew members being injured or killed. The periods of seizure in the West African cases continued to be relatively short, compared to Somali pirate seizures. Fortunately, none of the ships seized were entered in the Association.

Instability in the Middle East continued throughout the year. Sanctions against Iran appear to have had an effect with positive signs of increased cooperation by Iran with regard to its nuclear ambitions. In response, there has been a suspension of some previously sanctioned trades, though trading to Iran remains problematical and the long-term outlook remains unclear.

Members' trading environment remains unstable and potentially risky. In this environment, the Association will maintain its focus on war risks, providing specialist cover, enabling it to extend the breadth and depth of expertise and knowledge available to assist Members.

RISK TRANSFER

Protecting against claims and safeguarding reserves

The Notes to the Financial Statements include details of the Association's reinsurance programme. The Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During 2013-14, about 72 per cent of the contract was insured at Lloyd's, with the balance being in the companies and overseas markets.

The reinsurance is placed with reinsurers having at least an 'A-' rating and the Association is entitled to remove any one whose rating falls below that level during the year. No single reinsurer writes a line of more than 10 per cent on the contract. The risk transfer strategy will be maintained.

MUTUALITY

Protecting against claims and safeguarding reserves

While the last century has seen considerable change in the insurance and shipping industries, the Association has remained strongly mutual, run by and for its Members.

The benefits of mutuality include a greater focus on Members' needs, provision of insurance at competitive rates and more stable cost over time.

During the year, Members continued to benefit from very competitive Additional Premium ("AP") rates for transits of the Gulf of Aden / Indian Ocean. The Association also continued to offer Members discounts on AP rates for transits where armed guards were deployed, providing that the Managers were satisfied with the terms of the contract with the security company and the arrangement in place.

Members have also benefitted from the Association's healthy financial position (detailed in the "Finances" section of this review), enjoying lower rates of Advance Contributions and returns of call. Advance Contributions were reduced by 20 per cent for 2014-15 and renewing Members also received a 15 per cent return on 2013-14 Advance Contributions.

The Association has always been committed to providing first class service. During the year, most day-to-day activity related to issuing of insurance documents and providing quotes for AP cover, both being done as matters of priority.

Service to Members includes assistance with managing incidents and guidance on claims presentation. Fortunately, no new claims were notified in 2013-14. The Association, nevertheless, continued to advise Members on measures to prevent and deter pirate attacks and on the terms of contracts for security teams. It was also able to assist cruise and passenger ship Members who required "Blue Cards" for war risks liabilities under the terms of the EU Passenger Liability Regulation, which came into force on 31 December 2012.

Feedback gave opportunities to respond to Members' specific needs and further improve the service the Association provides. The Association welcomes feedback from Members and brokers as to the level of cover and service it provides.

INVESTMENTS

Investment income of $2.1 million

The Association's primary investment objectives are the conservation and accumulation of capital to cover its future obligations and to support the business. The portfolio is invested in US dollar bonds, cash, equities and absolute return funds.

Equities were the main driver of returns during the year and although January 2014 saw a sharp fall in the US equity market, the S&P 500 equity index has since risen to reach a new high in March 2014. The return from fixed income investments reflected the low interest rates and low yields available from bonds.

The overall return for the year ended 20 February 2014 was 6.97 per cent, producing investment income of $2.1 million, as detailed in the Directors' Report.

FINANCES

15% return of call

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ended 20 February 2014, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 14 October 2014.

The table compares the key financial information from the 2014 financial year with the corresponding figures from the 2013 financial year.

Year ended 20 February, All figures in $000s	2014	2013
Gross premium written	2,910	4,631
Outward reinsurance premium	(2,080)	(3,597)
Other technical income	257	221
Acquisition and administration costs	(1,771)	(1,537)
Operating (deficit)/surplus on the technical account	(684)	(282)
Net investment income after tax	1,961	1,409
Surplus for the year after tax	1,277	1,127
Reserves as at 20 February 2013	31,333	30,206
Reserves as at 20 February 2014	**32,610**	**31,333**

Gross premium (excluding return of call) written for the year was 36 per cent lower than the figure from the previous year. The reasons for the fall was firstly the effect of the 15 per cent reduction given to members on their premiums and secondly the reduction in Additional Premium ("AP") income which resulted from fewer AP voyages and, more significantly, from the discounts given to ships transiting the Gulf of Aden/Indian Ocean AP Area that had either armed guards on board and / or a Kidnap and Ransom insurance policy in place. There was a corresponding decrease in reinsurance premium.

The fall in income led to an operating deficit after the 15 per cent return of call of $684,000 compared to a deficit of $282,000 the previous year. Net investment income at $1.9 million however was significantly higher.

The surplus of $1.2 million for the year meant that free reserves at the year end increased to $32.6 million. The Reserves exceeded the required capital requirement of $3.7 million by $28.9 million.

The Association's reserving policy is to maintain reserves between $27.5 million and $32.5 million; it is detailed in the Directors' Report.

NOTICE OF MEETING | Annual General 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 Tuesday 14 October 2014 at 9.30am for the following purposes:-

To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2014 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

K Halpenny
Company Secretary
15 April 2014

DIRECTORS' REPORT

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2014.

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 flagged ships, but also to ships with no connection to the UK. At noon on 20 February 2014, 886 ships, with a total value of $17.2 billion, were entered in the Association. The corresponding figures for 20 February 2013 were 974 ships, with a total entered value of $20.2 billion.

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 2014, the Additional Premium Areas pursuant to Rule 19 were as set out below, the ports, places, countries, zones and areas listed including all harbours, offshore installations and terminals, unless otherwise stated. The headings in bold are included for reference only.

Africa

Benin

Eritrea (South of 15° N)

Gulf of Guinea, but only in respect of the area enclosed by:

On the northern side the coast of Benin, Togo and Nigeria;

On the western side a straight line from the border, on the coast, of Ghana and Togo to position Latitude 3° North, Longitude 1° 10' East;

On the southern side a straight line from there to position Latitude 3° North, Longitude 8° East;

On the eastern side a straight line from there to Latitude 4° North, Longitude 8° 31' East and then from there to the border, on the coast, of Nigeria and Cameroon.

Libya

Nigeria

Somalia

Togo

Indonesia / Malaysia

North East Coast of Borneo, between and including Kudat and Tarakan

Jakarta

Middle East

Iran

Iraq

Israel

Lebanon

Saudi Arabia

Syria

Yemen

Philippines
Sulu Archipelago including Jolo
Information: UKHO have provided parameters for the Sulu Archipelago as follows:-
From Tanjung Bidadari (5° 49' 6" N, 118° 21' 0" E) along the east coast of Sabah to Tanjung Bagahak Light (4° 56' 5" N, 118° 38' 3" E); thence south-eastwards to Pulau Mataking Light (4° 34' 6" N, 118° 57' 0" E); thence southwards to position 3° 32' 0" N, 118° 57' 0" E; thence north-eastwards to position 5° 50' 0" N, 122° 31' 0" E; thence northwards to position 7° 06' 6" N, 122° 31 0" E; thence westwards to Batorampon Point Light (7° 06' 6" N, 121° 53' 8" E); thence west-south-westwards to Tanjung Bidadari.

South America
Venezuela

Southern Red Sea / Gulf of Aden / Gulf of Oman / Arabian Sea / Indian Ocean 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.

Reserves

The main reasons 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 and to minimise the effect of any material change in the Association's financial results on the level of contributions paid by Members.

With these factors in mind, and having reviewed the Association's reserving policy during the year, the Directors have decided the Association should maintain reserves within a range of between $27.5 million and $32.5 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 with reinsurers that have an AM Best and/or Standard & Poors rating of A- or better and, in addition, by ensuring that no single reinsurer carries more than a 10 per cent line. The terms of the reinsurance contract give the Association the right to remove any reinsurer whose rating falls below A- at any time during the year. 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 reviewed and amended the Association's Outsourcing Policy and Management Agreement, its Business Risk Assessment and Risk Management Framework, as well as its Internal Control Framework.

Directors

The Directors of the Association are shown on page 4.

Mr E Rothwell resigned on 15 October 2013 after eleven years as a Director. The Directors wish to thank him for his service and for his contribution to the Association.

Mr R D Burmeister was appointed as Director of the Association with effect from 9 April 2013.

At the Annual General Meeting on 14 October 2014, Mr T Stage will retire by rotation in accordance with Article 9.1 of the Articles of Association and, being eligible, will put himself forward for reappointment.

Directors' meetings

During the 2013 Policy Year, the Directors held four formal meetings: one in April 2013, one in June 2013, one in October 2013 and one in January 2014. The June meeting was devoted exclusively to the Company's operating environment and the future challenges facing it.

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 meetings included:

Audit and regulatory matters: the auditors' report on the 2013 financial statements; the annual return to the Financial Services Authority for the year ending 20 February 2013.

Internal Audit and Risk: Reports on internal audits on underwriting and reinsurance functions, Internal audit plan, Business risk assessment report, operational risk hits and near misses report.

Directors: election of the Chairman and Deputy Chairman; the composition of the Board; appointment of new Directors and Directors' and Officers' liability insurance.

Finances: the financial statements for the year ended 20 February 2013; reserves policy and financial planning; investments and investment strategy; approval of Individual Capital Assessment report; A- rating from A M Best.

Underwriting: the closure of the 2013 Policy Year and return of call for the 2013 Policy Year; renewal report; reinsurance arrangements for the 2014 Policy Year; rates and terms to Members for the 2014 Policy Year.

Solvency II: on-going review of the implementation plans; review of the following policies: Fit and Proper, Compliance, Outsourcing and Reserving; Management Agreement; Business Risk Assessment and Risk Management Framework and Internal Control Framework.

Business Development: Review of rolling business plans, new business opportunities.

Other Matters: Market reports: Additional Premium Areas; piracy in the Gulf of Aden and Indian Ocean; piracy deterrents and avoidance measures; provision of certificates of financial responsibility under the 2002 Protocol to the Athens Convention and the EU Passenger Liability Regulation: financial crime risk management plans: Management Agreements and Management Fee for 2013-2016.

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 14 October 2014.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report, the Strategic 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.

T Stage
Chairman
15 April 2014

INDEPENDENT AUDITOR'S REPORT

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 for the year ended 20 February 2014 which are set out on pages 18 to 30. 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 company's member, 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 company's member those matters we are required to state to it 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, 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 the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 20 February 2014 and of its profit 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 Strategic Report and 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

15 April 2014

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 2014

	Note	2014 $'000	2013 $'000
Technical Account			
Gross premium written	3	2,910	4,631
Outward reinsurance premium	4	(2,080)	(3,597)
		830	1,034
Other technical income	5	257	221
Claims incurred, net of reinsurance			
- Claims paid			
Gross claims paid	14	-	(53)
Reinsurer's share		-	53
- Change in the provision for claims			
Gross outstanding claims	14	-	(70)
Reinsurers' share	14	-	70
		-	-
Acquisition costs	6	(507)	(559)
Administration costs	7	(1,264)	(978)
Balance of the technical account		(684)	(282)
Non Technical Account			
Balance of the technical account		(684)	(282)
Investment and other income	8	343	451
Gains on the realisation of investments		270	114
Unrealised gains on investments		1,517	900
Surplus on ordinary activities before tax		1,446	1,183
Tax on ordinary activities	12(a)	(169)	(56)
Surplus on ordinary activities after tax		**1,277**	**1,127**
Income and Expenditure account brought forward		31,333	30,206
Income and Expenditure account carried forward		**32,610**	**31,333**

All activities represent continuing activities. There are no recognised gains or losses other than the surplus for the year.
The notes on pages 21 to 30 form an integral part of these Financial Statements.

BALANCE SHEET

As at 20 February 2014

	Note	2014 $'000	2013 $'000
Assets			
Other Financial Investments	9	**32,410**	**30,933**
Reinsurers' share of technical provisions			
Claims outstanding	14	-	-
Debtors			
Debtors arising out of direct insurance operations			
- Policy holders		334	419
Debtors arising out of reinsurance operations		294	222
Cash at bank and in hand	13	**1,250**	**734**
Prepayments	10	**10**	**10**
Accrued Interest – interest earned but not yet received on fixed interest securities		**23**	**69**
		34,321	**32,387**
Liabilities			
Reserves			
Income and Expenditure		32,610	31,333
Technical Provisions			
Claims outstanding	14	-	-
Creditors			
Creditors arising out of direct insurance operations		436	188
Creditors arising out of reinsurance operations		906	764
Other creditors including taxation	12(b)	169	60
		1,511	1,012
Accruals	11	200	42
		34,321	**32,387**

These Financial Statements were approved by the Board of Directors on 15 April 2014.

Signed on behalf of the Board of Directors:

Mr T Stage — Chairman

Mr A Davies — Director

Thomas Miller War Risks Services Limited as Managers.

The notes on pages 21 to 30 form an integral part of these Financial Statements.

Company No.127262

CASH FLOW STATEMENT

for the year ended 20 February 2014

	Note	2014 $'000	2013 $'000
Net cash flow from operating activities			
Premium received		3,005	4,717
Reinsurance premium		(1,969)	(4,035)
Other operating income received		185	337
Claims recovered		-	7
Other operating cash payments		(1,348)	(1,515)
	13	(127)	(489)
Returns on Investment			
Interest received		389	486
Taxation			
Taxation paid	12(c)	(56)	(39)
(Decrease)/Increase in cash		206	(42)
Cash flows were invested as follows:			
(Decrease) / Increase in cash	13	516	(409)
Net portfolio investment			
(Disposal) / Purchase of fixed interest securities		(1,963)	521
Purchase of other debt securities		3,279	97
(Disposal) of units in unit trusts		(1,318)	(241)
Increase / (Decrease) in UCITS		2,829	(10)
Decrease in absolute return funds		(3,137)	-
	13	(310)	367
Total		**206**	**(42)**

The notes on pages 21 to 30 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) 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).

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 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.

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.

2. Accounting policies (continued)

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.

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 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.

j) 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.

3. Contributions and premiums

Contributions and premium have been charged as follows:

	2014 $'000	2013 $'000
Advance contributions		
UK flagged vessels advance contributions	1,592	1,950
Total advance contributions	1,592	1,950
Return of Call		
UK flagged vessels advance contributions	(186)	(201)
Total return of call	(186)	(201)
Additional premiums	1,504	2,882
Total additional premiums	1,504	2,882
Total net contributions and premiums	**2,910**	**4,631**

At the Directors' meeting held on 14 January 2014, it was decided that a 15% return of call should be made to Members of the Advance Contributions due in respect of the 2013 policy year (2012 policy year: 15%) upon the closing of that year.

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

4. Reinsurance premiums

	2014 $'000	2013 $'000
Advance contributions for UK flagged vessels	928	1,095
Total reinsurance for advance contributions	928	1,095
Additional premiums	1,152	2,502
Total reinsurance for additional premiums	1,152	2,502
Total reinsurance premium	**2,080**	**3,597**

a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is fully reinsured (except as described in (b) without deductible up to US$ 950 million each vessel. In addition, the separate limit provided to Members in respect of Rule 2C risks of US$500 million is also fully reinsured on the same contract (the "main reinsurance contract"). The sums insured in other currencies are determined by reference to the rates of exchange published in the Financial Times on 20 February 2014. There is a separate provision in the main reinsurance contract which, should the Association issue them to Members, will fully reinsure the exposure resulting from "Blue Cards" as required by the 2002 Protocol to the Athens Convention and/or the EU Passenger Liability Regulation (EC) No 392/2009. This exposure is Special Drawing Rights (SDR) 340 million any one vessel.

4. Reinsurance premiums (continued)

b) For claims arising in the Gulf of Aden / Indian Ocean Additional Premium area in 2014, a US$ 250,000 each and every loss deductible is applicable on the main reinsurance contract.

5. Other technical income

	2014 $'000	2013 $'000
Commission income	257	221

Additional Premiums are paid at 67.5% net of original reinsurance rates agreed for individual breaches. A return is made to the Association to reduce the proportion payable to 62.5% net at expiry. An additional continuity credit is payable by reinsurers to the Association on renewal of the reinsurance contract.

6. Acquisition costs

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

	2014 $'000	2013 $'000
Brokerage on premiums	318	390
Management fee allocated to acquisition costs	189	169
	507	**559**

7. Administration costs

	2014 $'000	2013 $'000
Managers' cost (Note 16)	758	678
Management Incentive Fee	167	-
Directors' fees	37	33
Directors' travel and meeting expenses	58	31
Directors' and Officers' insurance	13	14
Managers' travel and meeting expenses	10	9
Auditors' Remuneration	30	25
Other professional fees	137	107
Printing and Stationery (including Rule Books)	29	28
Communications – telephones, facsimile and postage	11	11
Bank charges	5	5
Sundry Expenses	4	2
	1,259	943
Investment Management Fees	5	35
	1,264	**978**

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

	2014 $'000	2013 $'000
Distributions from equities	90	137
Interest on bonds and Government stocks	207	313
Interest on bank deposits	45	5
	342	455
Exchange gains / loss arising during the year	1	(4)
	343	451

8. Investments and other income (continued)

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

	2014 $'000	2013 $'000
US$	1.0000	1.0000
Euro	0.7293	0.7479
Sterling	0.6003	0.6535
Chinese Yuan Renminbi	6.0836	6.2374
Japanese Yen	102.3177	93.6870
Australian Dollar	1.1135	0.9718
Norwegian Kroner	6.1086	5.5531

9. Other financial investments

	Market Value 2014 $'000	Market Value 2013 $'000	Cost 2014 $'000	Cost 2013 $'000
Fixed interest securities	10,797	12,870	10,840	12,980
Corporate bonds	7,009	3,732	7,001	3,892
Forward Contracts	-	-	-	-
Mutual Funds	9,832	9,451	6,388	7,337
UCITS	4,147	1,715	4,147	1,715
Absolute return funds	114	3,051	128	3,018
Cash on deposit	511	114	511	114
	32,410	**30,933**	**29,015**	**29,056**

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

	2014 $'000	2013 $'000
Prepayments	10	10

This relates to payments made for regulatory fees and D&O insurance.

11. Accruals

	2014 $'000	2013 $'000
Audit, accountancy and taxation	30	25
Accrued expenses	170	17
	200	**42**

Accrued expenses relates to the management incentive fees and other expenses not yet paid.

12. Taxation

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

	2014 $'000	2013 $'000
Corporation tax at 23% (2013: 20%)		
Current year	169	56

The current taxation charge for the year is detailed below.

	2014 $'000	2013 $'000
Surplus on ordinary activities before taxation	1,446	1,183
Theoretical tax at UK Corporation Tax rate of 23% (2013: 20%)	334	237
Effects of:		
- Balance on the technical account not taxable	156	49
- UK dividends not taxable	(31)	(28)
- Unrealised gain on equities not taxable	(307)	(193)
- Indexation allowance on realised gains	24	(9)
Small Companies Relief	(7)	-
Actual current tax charge	**169**	**56**

12. Investments and other income (continued)

b) Creditors

	2014 $'000	2013 $'000
Corporation tax payable	169	56
Other taxation and social security	-	4
	169	**60**

c) Tax Cash Flow

	2014 $'000	2013 $'000
Taxation paid – per cash flow statement	56	39

13. Cash Flow Statement

Movement in cash, deposits and investments

	As at 20/02/2013 $'000	Cash Flow $'000	Changes to market value, currencies and other changes $'000	As at 20/02/2014 $'000
Cash at bank	**734**	**516**	**-**	**1,250**
Fixed interest securities	12,870	(1,963)	(110)	10,797
Other debt securities	3,732	3,279	(2)	7,009
Equities	9,451	(1,318)	1,699	9,832
UCITS	1,715	2,432	-	4,147
Absolute return funds	3,051	(3,137)	200	114
Cash on deposit / settlement account	114	397	-	511
	30,933	**(310)**	**1,787**	**32,410**

13. Cash Flow Statement (continued)

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

	2014 $'000	2013 $'000
Balance on the technical account	(684)	(282)
(Decrease) in technical provision for claims	-	(70)
Decrease in reinsurers' share of technical provision for claims	-	70
Increase in debtors	12	141
Increase/(Decrease) in creditors	548	(349)
Change in Prepayments	-	1
Net cash inflow from operating activities	**(124)**	**(489)**

14. Claims

Technical account

	2014 $'000	2013 $'000
Claims paid		
Claims paid to policyholders	-	53
Reinsurance recoveries received	-	(7)
	-	46
Change in the provisions for claims		
- Movement in the year		
Gross claims	-	70
Reinsurance	-	(70)
	-	**-**

Balance sheet

	2014 $'000	2013 $'000
Technical provisions		
- Claims outstanding		
Gross amount due to the policy holder	**-**	**-**
Reinsurers' share of technical provisions		
- Claims outstanding	**-**	**-**

15. Managers' remuneration

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

	2014 $'000	2013 $'000
Acquisition costs	189	169
Administration	758	678
Incentive Fee	167	-
	1,114	**847**

16. 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.

17. 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
K Halpenny
R A Harnal
A E Ward

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K Halpenny

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