

UK WAR RISKS 

DEDICATED SERVICE

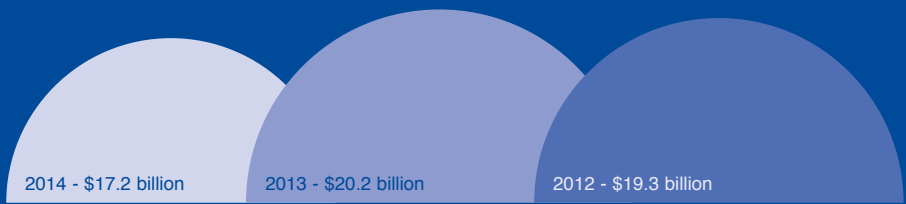
*Directors' Report and Financial Statements
for the year ended 20 February 2015*



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

Total Entered Value

\$15.9bn



Total Number of Ships Entered



880

A- Rating

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

A- stable

Pirate Activity

18%



Piracy and sea robbery incidents in Asia were up 18% in the first half of 2015 (Source: ReCAAP ISC)

End of Year Reserves

\$33.6m

Surplus for the Year

\$1m

Return of Call

15%

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

North East Coast of Borneo
Jakarta
Philippines

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

DIRECTORS

T Stage (Chairman)
Svitzer A/S, Copenhagen

A Davies (Deputy Chairman)
Shell International Limited, London

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

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

R D Burmeister
James Fisher Everard Limited, London

A strong financial position

I am pleased to be able to report that the 2014 policy year was another year in which no claims were incurred by the Association. However, recent events have highlighted that despite Somali piracy activity remaining subdued, largely owing to Owners' and EU NAVFOR's ongoing anti-piracy efforts, there are continued and, in some cases, heightened risks to shipping in many parts of the world. Perhaps of most concern is the current instability in Libya, where a Greek tanker, (which was not entered in the Association) was attacked recently by the Libyan Air Force for no apparent reason. In addition, the spread of ISIS (Islamic State) in Libya, Syria and Iraq poses a potential further threat to ships and their crews trading to these countries.

The situation in Nigeria also remains of concern with Owners facing continued attempts to hijack ships for their cargo or, thankfully, somewhat less frequently, to kidnap ships' crews for ransom. The Nigerian Federal Government's recent prohibition of the use of armed or unarmed guards on board ships entering Nigerian coastal or territorial waters has also increased the difficulties in deterring these attacks. Piracy in South East Asia also appears to have increased, both in the number and also the scope of attacks, which are now often more serious than the relatively small scale thefts seen in the past.

The above factors emphasise the need for Owners to remain vigilant against the varied threats to which their ships and crew are exposed. I am confident that in the event of a claim involving the Association, the combination of the cover provided by the Rules, the Managers' experience in handling such incidents as well as the Directors' discretion under the Rules, all combine to provide an unrivalled level of support to Members in what can be highly complex and costly cases.

Of course, the Association's cover counts for nothing if the premiums charged are not competitive. I am therefore pleased that the Association's high level of reserves relative to its capital requirements has enabled a 25 % reduction in annual premiums at the 2015 renewal. Although the Association's war risk premiums have fallen in recent years, this has been offset by falls in reinsurance costs and positive investment returns.

The Association's strong financial position was recognised by AM Best last year, who re-affirmed its financial strength rating, of A- "Excellent." The Association remains committed to keeping Members' insurance costs as low as possible whilst maintaining class leading cover and the highest possible standards of service.

In 2015, the Association has enhanced the cover it offers to Members to include optional war loss of hire and contraband covers, both at extremely competitive rates. War loss of hire cover can, if Members wish, respond to piracy incidents involving the seizure of ships, with no deductible being applicable. In addition, Members may now enter ships at any time in the Policy Year for a twelve month period, rather than all entries being subject to renewal on 20 February each year. I hope that Members will welcome these changes.

Finally, I would like to take this opportunity to thank the membership for its continued support in 2014.

T Stage

Chairman

14 April 2015

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.



All figures as of 20 February 2015

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

WAR RISKS

Depth of expertise

Somali pirate activity remained subdued in 2014 though some attacks and suspicious approaches by skiffs continue to be reported. Whilst much reduced, the piracy threat has not been eradicated. The use of armed guards, effective application of BMP (Best Management Practices) 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.

Attacks on ships continue off West Africa with the cargo thefts, particularly when refined crude oil products are involved, being the piracy model in this region. Occasionally, ships' crews are subject to hijack for ransom by Nigerian pirates. The situation in Libya deteriorated markedly in 2014 and remains highly fluid. Sanctions against Iran appear to have had an effect with positive signs of increased cooperation by Iran with regard to its nuclear ambitions, though trading to Iran remains problematical and the long-term outlook remains unclear. The increase in piracy in SE Asia is of concern and is being monitored closely.

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 the year ended 20 February 2015, about 72% of the contract was insured at Lloyd's, with the balance being in the company and overseas markets. This is consistent with the placement last year.

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% 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.

Members have also benefitted from the Association's healthy financial position (detailed in the "Finance" section of this review), enjoying lower rates of Advance Contributions and returns of call. Premiums were reduced by 25% for the coming 2015 Policy year.

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 during the year ended 20 February 2015. 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's provides. The Association welcomes feedback from Members and brokers as to the level of cover and service it provides.

INVESTMENTS

Investment income of \$1.7 million

The Association's primary investment objective is to conserve and accumulate capital in order to cover future obligations and support the business objectives. The secondary objective is to earn greater returns than the benchmarks set out in the Investment Mandate.

Equities were the main driver of returns during the year producing returns of 16%. Despite historic low levels of interest rates, returns on Fixed Income securities and Corporate Bonds produced returns of 0.89%.

The overall return for the year ended 20 February 2015 was 5.50% (2014: 6.97%), producing pre-tax investment income of \$1.7m (2014: \$ 2.1 m).

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ended 20 February 2015, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 13 October 2015.

The table compares the key financial information from the 2015 financial year with the corresponding figures from the 2014 financial year.

Year ended 20 February, All figures in \$000s	2015	2014
Gross premium written	2,108	2,910
Outward reinsurance premium	(1,175)	(2,080)
Other technical income	153	257
Acquisition and administration costs	(1,686)	(1,771)
Operating deficit on the technical account	(600)	(684)
Net investment income after tax	1,593	1,961
Surplus for the year after tax	993	1,277
Reserves as at 20 February 2014	32,610	31,333
Reserves as at 20 February 2015	33,603	32,610

Gross premium written for the year ended 20 February 2015 reduced by 28%. The reasons for the fall were the 20% reduction given to Members on advance contributions and 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 specific Kidnap and Ransom Insurance policy in place. There was a corresponding decrease in reinsurance premium.

The fall in income offset by lower reinsurance premiums, led to an operating deficit of \$0.6m compared to a deficit of \$0.684m the previous year. Net Investment income at \$1.593m is 18.8% lower than last year.

The surplus of \$0.993m for the year meant that free reserves at the year-end increased to \$33.6m. The Reserves exceeded the regulatory capital requirement of \$3.5m by \$30.1m.

The Association's current reserving policy is to maintain reserves between \$25 million and \$35 million.

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 13 October 2015 at 9.30am for the following purposes:-

- To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2015 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
14 April 2015

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2015.

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 2015, 880 ships, with a total value of \$15.9 billion, were entered in the Association. The corresponding figures for 20 February 2014 were 886 ships, with a total entered value of \$17.2 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 2015, 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 and Nigeria;

On the western side a straight line from the border, on the coast of Benin and Togo position Latitude 3° North, Longitude 1° 38'E;

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

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 \$25 million and \$35million. The Directors continue to monitor the Association's reserves and its financial results by reviewing management accounts at every meeting.

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 & Poor's rating of A- or better and, in addition, by ensuring that no single reinsurer carries more than a 10% 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.

They reviewed and amended the Association's Business Risk Assessment, Risk Management Framework and Underwriting and Reinsurance Policy, along with approving a Conflicts of Interest Policy and an Operational Risk Policy.

The Directors of the Association are shown on page 4.

At the Annual General Meeting on 13 October 2015, Mr A Davies 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 2014 Policy Year, the Directors held three formal meetings: one in April 2014, one in October 2014 and one in January 2015.

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: Independent Auditors' review regarding the Annual Statutory Audit for the year ended 20 February 2014, approval of the year-end Report and Financial statements, approval of the annual return to the Prudential Regulatory Authority (PRA) for the year ending 20 February 2014. Registration of the Association in Isle of Man and Election of its Representatives. Approval of Individual Capital Assessments (ICA) for the period to 20 February 2014.

Internal Audit and Risk: Reports on internal audits on the central services provide to the Association, these were on IT Service desk, Investment Controls and Controls and processes on the debiting and payment of Management Fees, Thomas Miller internal assurance update. Business Risk Assessment report, reports on operational risk losses, near misses and emerging risks.

Finances: Management Accounts, Financial forecasts Approval of Individual Capital Assessment report. Financial strength rating of A- rating from A M Best.

Investments: Investment reports, approval of Investment Management Agreements, reviewing Investment strategy, reviewing Investment mandates and agreeing Equity Benchmarks.

Underwriting: the closure of the 2014 Policy Year, renewal report; reinsurance arrangements for the 2015 Policy Year; rates and terms to Members for the 2015 Policy Year.

Solvency II: on-going review of the implementation plans; review of the following policies: Risk Management Framework, Regulatory Compliance Policy, Outsourcing Policy, Conflicts of Interest Policy, Internal Audit Framework, Underwriting and Reinsurance Policy and Operational risk policy.

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

Other Matters: Market reports on Additional Premium Areas.

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 13 October 2015.

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 and;
- 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

14 April 2015

We have audited the financial statements of The United Kingdom Mutual War Risks Association Limited for the year ended 20 February 2015 which are set out on pages 18 to 29. 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 company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 15 and 16, 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 web-site at www.frc.org.uk/auditscopeukprivate.

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 2015 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 matters 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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Alexander Barnes, Senior Statutory Auditor

For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

14 April 2015

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 2015

	Note	2015 \$'000	2014 \$'000
Technical Account			
Gross premium written	3	2,108	2,910
Outward reinsurance premium	4	(1,174)	(2,080)
		934	830
Other technical income	5	153	257
Acquisition costs	6	(458)	(507)
Administration costs	7	(1,228)	(1,264)
Balance of the technical account		(599)	(684)
Non Technical Account			
Balance of the technical account		(599)	(684)
Investment and other income	8	303	343
Gains on the realisation of investments		890	270
Unrealised gains on investments		537	1,517
Surplus on ordinary activities before tax		1,131	1,446
Tax on ordinary activities	12(a)	(138)	(169)
Surplus on ordinary activities after tax		993	1,277
Income and Expenditure account brought forward		32,610	31,333
Income and Expenditure account carried forward		33,603	32,610

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 29 form an integral part of these Financial Statements.

BALANCE SHEET

As at 20 February 2015

	Note	2015 \$'000	2014 \$'000
Assets			
Other Financial Investments	9	33,623	32,410
Reinsurers' share of technical provisions			
Debtors			
Debtors arising out of direct insurance operations			
- Policy holders		182	334
Debtors arising out of reinsurance operations		153	294
Cash at bank and in hand	13	668	1,250
Prepayments	10	53	10
Accrued Interest – interest earned but not yet received on fixed interest securities		38	23
		34,717	34,321
Liabilities			
Reserves			
Income and Expenditure		33,603	32,610
Creditors			
Creditors arising out of direct insurance operations		492	436
Creditors arising out of reinsurance operations		258	906
Other creditors including taxation	12(b)	179	169
		929	1,511
Accruals	11	185	200
		34,717	34,321

These Financial Statements were approved by the Board of Directors on 14 April 2015.

Signed on behalf of the Board of Directors

Directors

Mr T Stage

Chairman

Mr A Davies

Deputy Chairman

Thomas Miller War Risks Services Limited as Managers.

The notes on pages 21 to 29 form an integral part of these Financial Statements.

Company No.127262

CASH FLOW STATEMENT

For the year ended 20 February 2015

	Note	2015 \$'000	2014 \$'000
Net cash flow from operating activities			
Premium received		2,124	3,005
Reinsurance premium		(1,822)	(1,969)
Other operating income received		294	185
Other operating cash payments		(1,552)	(1,348)
	13	(956)	(127)
Returns on Investment			
Interest received		289	389
Taxation			
Taxation paid	12(c)	(129)	(56)
(Decrease) / Increase in cash		(796)	206
Cash flows were invested as follows:			
(Decrease) / Increase in cash	13	(582)	516
Net portfolio investment			
(Disposal) / Purchase of fixed interest securities		(8,222)	(1,963)
Purchase of other debt securities		7,020	3,279
(Disposal) of units in unit trusts		(110)	(1,318)
Increase / (Decrease) in UCITS		3,199	2,829
Decrease in absolute return funds		(2,101)	(3,137)
	13	(214)	(310)
Total		(796)	206

The notes on pages 21 to 29 form an integral part of these 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:

	2015 \$'000	2014 \$'000
Advance contributions		
Advance contributions	1,206	1,592
Total advance contributions	1,206	1,592
Return of Call		
Advance contributions	2	(186)
Total return of call	2	(186)
Additional premiums	900	1,504
Total additional premiums	900	1,504
Total net contributions and premiums	2,108	2,910

At the Directors' meeting held on 13 January 2015, it was decided that no return of call should be made to Members of the Advance Contributions due in respect of the 2014 policy year (2013 policy year: 15%) upon the closing of that year. The \$2k relates to a return of call adjustment.

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

4. Reinsurance premiums

	2015 \$'000	2014 \$'000
Advance contributions	504	928
Total reinsurance for advance contributions	504	928
Additional premiums	670	1,152
Total reinsurance for additional premiums	670	1,152
Total reinsurance premium	1,174	2,080

a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is, for the 2015/2016 Policy Year, fully reinsured (except as described below) without deductible up to USD950 million each vessel. In addition, the separate limit provided to Members in respect of Rule 2C risks of USD500 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 2015. 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 SDR340 (Special drawing rights) million to any one vessel.

4. Reinsurance premiums (continued)

- b) For claims arising in the Gulf of Aden / Indian Ocean Additional Premium area in 2015, a deductible of USD250,000 on each and every loss is applicable on the main reinsurance contract.

5. Other technical income

	2015 \$'000	2014 \$'000
Commission income	153	257

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.

	2015 \$'000	2014 \$'000
Brokerage on premiums	242	318
Management fee allocated to acquisition costs	216	189
	458	507

7. Administration costs

	2015 \$'000	2014 \$'000
Managers' cost (Note 16)	865	758
Management Incentive Fee	154	167
Directors' fees	31	37
Directors' travel and meeting expenses	29	58
Directors' and Officers' insurance	14	13
Managers' travel and meeting expenses	26	10
Auditors' Remuneration	34	30
Other professional fees	45	137
Printing and Stationery (including Rule Books)	12	29
Communications – telephones, facsimile and postage	3	11
Bank charges	4	5
Sundry Expenses	5	4
	1,222	1,259
Investment Management Fees	6	5
	1,228	1,264

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

	2015 \$'000	2014 \$'000
Distributions from equities	172	90
Interest on bonds and government stocks	168	207
Interest on bank deposits	3	45
	343	342
Exchange gains / loss arising during the year	(39)	1
	304	343

8. Investments and other income (continued)

The year end rates of exchange equivalent to \$1 were:

	2015 \$'000	2014 \$'000
US\$	1.0000	1.0000
Euro	0.8796	0.7293
Sterling	0.6506	0.6003
Chinese Yuan Renminbi	6.2551	6.0836
Japanese Yen	118.759	102.318
Australian Dollar	1.2770	1.1135
Norwegian Kroner	7.5270	6.1086

9. Other financial investments

	Market Value 2015 \$'000	Market Value 2014 \$'000	Cost 2015 \$'000	Cost 2014 \$'000
Fixed interest securities	2,604	10,797	2,607	10,840
Corporate bonds	14,018	7,009	14,019	7,001
Forward Contracts	-	-	-	-
Mutual Funds & Alternatives	14,444	9,832	10,509	6,388
UCITS	2,789	4,147	2,789	4,147
Absolute return funds	-	114	-	128
Cash on deposit	(232)	511	(232)	511
	33,623	32,410	29,692	29,015

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

	2015 \$'000	2014 \$'000
Prepayments	53	10

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

11. Accruals

	2015 \$'000	2014 \$'000
Audit, accountancy and taxation	31	30
Accrued expenses	154	170
	185	200

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

12. Taxation**a) The charge in the Income and Expenditure Account represents:**

	2015 \$'000	2014 \$'000
Corporation tax at 21% (2014: 23%) Current year	179	169
Adjustment in respect of prior period	(41)	-
Actual tax per profit and loss	138	169

The current taxation charge for the year is detailed below.

	2015 \$'000	2014 \$'000
Surplus on ordinary activities before taxation	1,131	1,446
Theoretical tax at UK Corporation Tax rate of 21% (2014: 23%)	240	334
Effects of:		
- Balance on the technical account not taxable	126	156
- UK dividends not taxable	(37)	(31)
- Withholding tax on interest (recoverable)	1	-
- Unrealised gain on equities not taxable	(104)	(307)
- Indexation allowance on realised gains	(44)	24
Marginal relief	(3)	(7)
	179	169
Adjustment in respect of prior period	(41)	-
Actual current tax charge	138	169

12. Taxation (continued)**b) Creditors**

	2015 \$'000	2014 \$'000
Corporation tax payable	179	169
	179	169

c) Tax Cash Flow

	2015 \$'000	2014 \$'000
Taxation paid – per cash flow statement	129	56

13. Cash Flow Statement

Movement in cash, deposits and investments

	As at 20/02/2014 \$'000	Cash Flow \$'000	Changes to market value, currencies and other changes \$'000	As at 20/02/2015 \$'000
Cash at bank	1,250	(582)	-	668
Fixed interest securities	10,797	(8,222)	29	2,604
Other debt securities	7,009	7,020	(11)	14,018
Equities & Alternatives	9,832	3,199	1,413	14,444
UCITS	4,147	(1,358)	-	2,789
Absolute return funds	114	(110)	(4)	-
Cash on deposit / settlement account	511	(743)	-	(232)
	32,410	(214)	1,427	33,623

13. Cash Flow Statement (continued)

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

	2015 \$'000	2014 \$'000
Balance on the technical account	(599)	(684)
Decrease in debtors	293	12
(Decrease)/Increase in creditors	(607)	548
Change in prepayments	(43)	-
Net cash inflow from operating activities	(956)	(124)

14. Claims

The Association has not been notified of any claims in the years ending 20 February 2015 and 2014.

15. Managers' remuneration

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

	2015 \$'000	2014 \$'000
Acquisition costs	216	189
Administration	865	758
Incentive Fee	154	167
	1,235	1,114

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

Thomas Miller War Risks Services Limited

Directors

J.A. Culley	(resigned 1 July 2014)
K. Halpenny	
R.A.A. Harnal	
R. Lingard	(appointed 1 July 2014)
A.E. Ward	
N.J. Whitear	(appointed 1 July 2014)

Secretary

K Halpenny

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