UK WAR RISKS

Annual Report and Financial Statements

For the year ended 20 February 2017

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

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

Contents

UK War Risks at a glance

Total Entered Value

$18.9bn

Surplus for the Year

$3.3m

Total Number of Ships Entered

968

Investment Return

12.3%

Pirate Activity

Piracy and armed robbery against ships
Types of attacks, January – June 2017:

63 vessels boarded
4 hijackings
8 attempted attacks
12 vessels fired upon

(Source: ICC International Maritime Bureau)

A- stable

A- Rating

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

End of Year Reserves

$35.1m

2014	$32.6m
2015	$33.6m
2016	$31.8m

Directors

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

R. D. Burmeister
James Fisher Everard Limited, London

R. A. A. Harnal (Chief Financial Officer) — Appointed 1 June 2016
Thomas Miller War Risks Services Limited

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

E. Verbeeck — Appointed 18 October 2016
Euronav NV

A. E. Ward (Chief Executive Officer) — Appointed 1 June 2016
Thomas Miller War Risks Services Limited

…I would like to express both my and my fellow Directors’ appreciation for Members’ ongoing support.

Torben Stage, Chairman

Chairman's Statement

To start on a positive note, the Club's strong financial position, including the protection of the Members' reserves by way of an extensive reinsurance programme, has enabled it to take advantage of healthy investment markets with a 12.28% investment return being achieved at the 2017 year-end.

This has further bolstered the Club's strong capital position and will contribute to the Club's future ability to provide stability to Members against a backdrop of potentially volatile investment markets as well as unpredictable geo-political events.

In my statement twelve months ago, I commented on the risks faced by ships and their crews in several parts of the world. Again this year, the situation in Yemen, Syria and Libya (to name but three areas) remains volatile with the constant potential of onshore tensions spilling over into the maritime sphere. Kidnappings of ships' crews off the West Coast of Africa also continue to be of concern with an increase in the number of kidnapping incidents being incurred off Nigeria and in the Gulf of Guinea in 2016. This situation looks set to continue despite the Nigerian Government's apparent efforts to address the issue.

Perhaps of greater concern at the time of writing is the recently reported hijacking of the MT ARIS 13 by Somali pirates – the first successful Somali hijack of a merchant ship since 2012. It remains to be seen whether this is a one-off, opportunistic incident, or is a sign of resurgence in Somali pirate activity.

I would take this opportunity to continue to encourage Members to remain vigilant against the threats posed to shipping, particularly off the West Coast of Africa and where Somali pirate activity remains a possibility. It is pleasing to be able to report that once again, due to Members' anti-piracy efforts, the Club incurred no serious claims in 2016. The Managers and Directors continue to endorse the recommendations in BMP 4 – Best Maritime Practices for Protection against Somali Based Piracy - and of maintaining vigilance in other areas of the world where piracy exposes ships and their crews to the risks of robbery or kidnap. Service is one of the defining characteristics of a mutual and the Managers deliver support and advice on a direct Member enquiry basis and also by way of the Club's website.

The Club is domiciled in London and the United Kingdom's decision to leave the EU is obviously a serious issue facing the Club, given that a large proportion of the membership is EU domiciled. The UK financial sector as a whole is grappling with solutions to this problem and the Club's Board will be committing an increasing amount of time at future Directors' meetings in working to ensure that the Club's ability to offer high quality, competitively priced cover to Members, whether they are based in the EU or elsewhere, is as unaffected as possible. The Managers have been tasked with solutions for the Board's consideration and I believe the position will become clearer in the not too distant future.

The Club recognises the need to remain competitive in a war risks market that remains supplied with plentiful underwriting capacity. This has benefits in terms of the reduction in the cost of the Club's reinsurance programme with these benefits having been passed on to Members by way of a further 20% reduction in annual premiums at the 2017 renewal. Additional Premium rates will continue to be kept under constant review during the coming year. The Club's competitiveness, both in terms of premium levels and the breadth of cover it offers, has ensured a high retention rate of Members in recent years, in testament to the Club's competitiveness. I would therefore like to express both my and my fellow Directors' appreciation for Members' ongoing support.

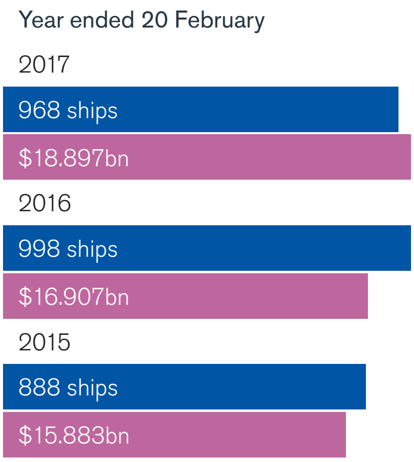
Torben Stage
Chairman
23 May 2017

Strategic Report

The Directors have pleasure in presenting their Report and the Consolidated Financial Statements of The United Kingdom Mutual War Risks Association Limited (the "Association") for the year ended 20 February 2017.

International

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 opposite compares the number of ships entered in the Association and the total entered value over the last three years.

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

War Risks

Somali pirate activity remained subdued in 2016 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 Practice) 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 an increased emphasis on kidnaps of ships' crews for ransom. The situation in Libya remains volatile as is also the case in Yemen with an ongoing risk to ships trading to these areas. Despite the appalling humanitarian crisis in Syria, whilst calls to Syrian ports remain declarable, the risks to shipping have not markedly increased and Additional Premiums remain nil rated for Syrian port calls at the time of writing. 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.

Mutuality

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 which were reduced on average by 20% for the 2017 Policy Year, continuing the recent trend of year on year reductions.

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. There were no new claims notified during the year ended 20 February 2017. The Association continues 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.

The Association welcomes feedback from Members and brokers as to the

Strategic Report

level of cover and service it provides Feedback gives us the opportunity to respond to Members' specific needs and further improve the service the Associations provides.

Risk Transfer

The Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During the year ended 20 February 2017, about 82% of the reinsurance contract was placed at Lloyd's, with the balance being placed with insurance companies in the UK and overseas. This is consistent with the placement last year. The Notes to the Financial Statements include details of the Association's reinsurance programme.

Finances

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ended 20 February 2017, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 17 October 2017.

The table below compares the key financial information from the 2017 financial year with the corresponding figures from the 2016 financial year.

Despite the softening rating environment the gross premiums written have increased due to changes in the membership and an increase in the number of transits of calls to Additional Premium areas.

The associated increase in reinsurance premium is lower than the increase in gross premium.

The Association's reserves at the year-end were US$35.1 million. This exceeds the Association's policy of holding reserves between US$25 million and US$35 million. This has been bought about by the better than expected Investment returns. The Directors will consider the level of reserves and limits at the May 2017 Board meeting.

Investments

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.

The overall return for the year ended 20 February 2017 was 12.28% (2016 negative -3.15%).

The positive return for the year was driven primarily by the increase in the Equities and Alternative portfolio as well as a small increase in its Fixed Income portfolio.

Year ended 20 February	**2017 US$ '000**	**2016 US$ '000**
Gross premium written	2,822	1,882
Outward reinsurance premium	(1,757)	(1,071)
Net claims incurred	-	-
Other technical income	236	144
Acquisition and administration costs	(1,580)	(1,501)
Operating (deficit) on the technical account	(279)	(546)
Net investment income/(loss) after tax	3,584	(1,203)
Surplus/(deficit) for the year after tax	3,305	(1,749)
Reserves brought forward	31,834	33,583
Reserves carried forward	35,139	31,834

Notice of Meeting

The Annual General

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 10 October 2017 at 9.30am for the following purposes:-

To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2017, 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
23 May 2017

AP Areas

Additional Premium ("AP") Areas as at 20 February 2017

South America
Venezuela

Africa
Benin
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

Directors' Report

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2017.

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 2017, 968 ships with a total value of US$18.897 bn were entered in the Association.
The corresponding figures for 20 February 2016 were 998 ships with a total entered value of US$16.907 bn.

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 2017, 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
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 Togo and Ghana 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

Middle East
Iran
Iraq
Israel
Lebanon
Saudi Arabia
Syria
Yemen

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 65° 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.

Directors' Report

Reserves

The main reasons the Association holds reserves are: to meet it's 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.

The Association's reserves at the year-end were US$35.1 million. This exceeds the Association's policy of holding reserves between US$25 million and US$35 million. This has been bought about by the better than forecast Investment returns. The Directors will consider the level of reserves at the May 2017 Board meeting.

Risk Management

The Association is governed by the Board of Directors which drives decision making within the Association from Board level through to operational decision making within the Managers. The Board considers the type and scale of risk that the Association is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

Information on how these risks are managed is disclosed in Note 4 to the Financial Statements.

During the year, the Directors reviewed the Association's risk management policies and procedures in the context of Solvency II preparations.

Directors

The Directors of the Association are shown on page 5.

Directors' Meeting

During the 2016 Policy Year, the Directors' held three formal meetings: one in April 2016, one in October 2016 and one in January 2017.

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:

Annual Reports and Financial Statements: Received the Independent Auditors' review regarding the Annual Statutory Audit for the year ended 20 February 2016, approved the year-end Report and Financial Statements, approved the annual return to the Prudential Regulatory Authority (PRA) for the year ending 20 February 2016.

Internal Audit and Risk: Received reports on internal audits carried out on UK War Risks and on Thomas Miller (Managers of UK War Risks), received and approved the Business Risk Assessment document, noted operational risk losses, near misses and emerging risk, as well as any breaches reported by the Risk Officer.

Finances: Receiving management accounts, financial forecasts and A.M. Best rating report (A-).

Investments: Receiving Investment reports on fund performance, receiving reports on custodian performance, approving portfolio benchmarks, and Investment mandates.

Underwriting: Approving closure of the 2016 Policy Year, receiving renewal report; approving reinsurance arrangements for the 2017 Policy Year; and rates and terms to Members for the 2017 Policy Year.

Compliance and Regulatory: Approving amendments to the Articles, receiving reports on Senior Insurance Managers Regime (SIMR), approving the Risk Management framework. Investment Policy and Mandate, agreeing Directors terms of reference and approving various club policies. Approved the Own Risk Solvency Assessment (ORSA) report to be sent to the regulators.

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

Other Matters: Market reports on Additional Premium Areas, Directors' Fees, and Board composition.

Directors' Report

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 17 October 2017.

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
23 May 2017

Independent Auditors' 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 Limited for the year ended 20 February 2017 which are set out on pages 18 to 48. 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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 14 and 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 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 Association's affairs as at 20 February 2017 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

Alexander Barnes
Senior Statutory Auditor
For and on behalf of Moore Stephens LLP, Statutory Auditor

150 Aldersgate Street
London EC1A 4AB
23 May 2017

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.

$35m End of year reserves


4P
3P

Accounts

Income and Expenditure account and movement in reserves for the year ended 20 February 2017

Technical Account	Notes	2017 US$ '000	2016 US$ '000
Gross premium written	5	2,822	1,882
Outward reinsurance premium	6	(1,757)	(1,071)
		1,065	**811**
Other technical income	7	236	144
Claims paid			
Gross amount		(11)	-
Reinsurers' share		11	-
Net claims paid		-	-
Change in the provision for claims			
Gross outstanding claims	8	14	(14)
Reinsurers' share		(14)	14
Change in net provision for claims		-	-
Claims incurred, net of reinsurance		-	-
Acquisition costs	9	(419)	(401)
Administration costs	10	(1,161)	(1,100)
Balance of the technical account		**(279)**	**(546)**

Accounts

Income and Expenditure account and movement in reserves for the year ended 20 February 2017

Non Technical Account	Notes	2017 US$ '000	2016 US$ '000
Balance of the technical account		(279)	(546)
Investment and other income	11	408	459
Gains / (losses) on the realisation of investments		662	1,025
Unrealised gains/ (losses) on investments		2,691	(2,505)
Surplus/ (deficit) on ordinary activities before tax		3,482	(1,567)
Tax on ordinary activities	12	(177)	(182)
Surplus / (deficit) on ordinary activities after tax		3,305	(1,749)
Reserves brought forward		31,834	33,583
Reserves carried forward		35,139	31,834

All activities represent continuing activities. There are no recognised gains or losses other than the surplus for the year.
The notes on pages 24 to 38 form an integral part of these Financial Statements.

Accounts

Balance Sheet
As at 20 February 2017

	Notes	2017 US$ '000	2016 US$ '000
ASSETS			
Other Financial Investments	13	34,968	31,616
Reinsurers share of technical provisions			
Claims outstanding		-	14
Debtors			
Debtors arising out of direct insurance operations			
Policy holders		473	308
Debtors arising out of reinsurance operations		240	144
		713	452
Cash at bank and in hand	14	294	413
Prepayments	15	46	51
Accrued Interest		**59**	**51**
		36,080	**32,597**
RESERVES and LIABILITIES			
Reserves			
Free reserves		35,139	31,834
Technical Provisions			
Claims outstanding		-	14
Creditors			
Derivative financial instruments	16	-	4
Creditors arising out of direct insurance operations		281	243
Creditors arising out of reinsurance operations		462	301
Other creditors including taxation		160	170
		903	718
	17	38	31
Accruals		**36,080**	**32,597**

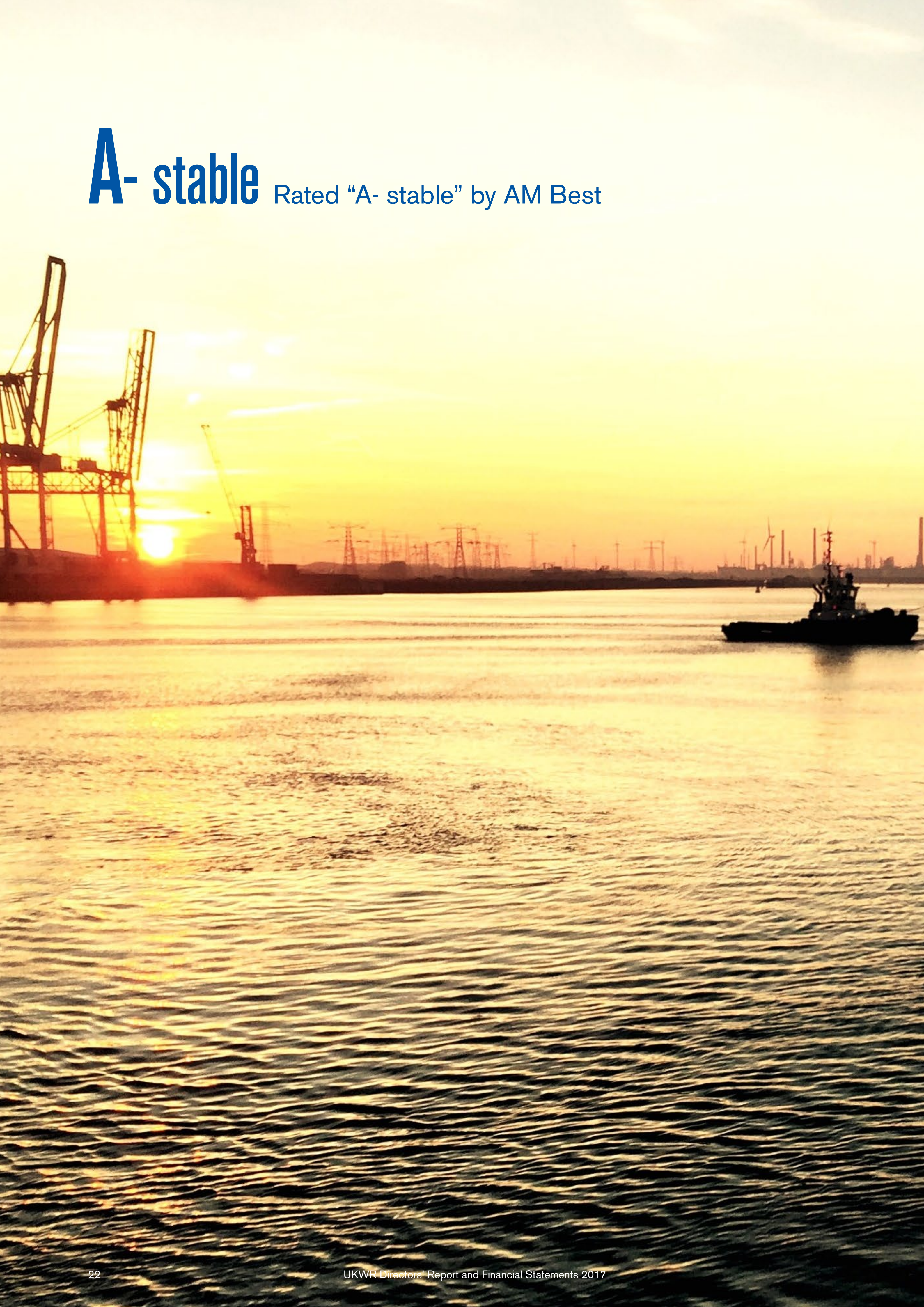
Chairman: **T. Stage**
Director: **A. Davies**
Chief Financial Officer: **R.A.A Harnal**
The notes on pages 24 to 38 form an integral part of these Financial Statements.

Cash Flow Statement
For the year ended 20 February 2017

	Notes	2017 US$ '000	2016 US$ '000
Operating activities			
Premiums received		2,658	1,755
Reinsurance premium paid		(1,596)	(1,028)
Other operating income received		132	153
Claims paid		(11)	-
Reinsurance Recoveries		4	-
Acquisition costs paid		(419)	(401)
Administration costs paid		(1,070)	(1,500)
Taxation paid		(177)	(191)
Net cash provided/(used) by operating activities		(479)	(1,211)
Cash flows from investment activities			
Purchase of investments		(24,033)	(25,142)
Sale of investments		23,875	25,652
Interest received		222	162
Dividends on investments in equities		296	284
Net cash flow from investment activities		**360**	**956**
Net increase/(decrease) in cash and cash equivalents		(119)	(255)
Cash and cash equivalents at the beginning of the year		413	668
Cash and cash equivalents at the end of the year	14	**294**	**413**

The notes on pages 24 to 38 form an integral part of these Financial Statements.

A- stable Rated “A- stable” by AM Best



1. Constitution and ownership

The Association is incorporated in England and Wales as a company limited by guarantee and not having a share capital. The address of the registered office is given on page 49.

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

2.1 Statement of compliance and basis of preparation

The Financial Statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006.

The Financial Statements have been prepared under the provisions of the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups.

The Financial Statements have been prepared on the historical cost basis, except for other financial investments and derivative financial instruments which are presented at fair value.

The functional currency of the Association is US dollars because that is the currency of the primary economic environment in which the Association operates. The Financial Statements are also presented in US dollars

2.2 Policy Year accounting

Contributions and premiums, claims paid, reinsurance recoveries, reinsurance premiums and the management fees 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.

2.3 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 to the extent that they can be reasonably estimated. Premiums for a period of cover after the year-end are treated as unearned.

2.4 Claims

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.

2.5 Reinsurance recoveries

The Directors are satisfied that the Insurance risks 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.

2.6 Reinsurance premiums

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

2.7 Financial instruments

Financial instruments are recognised on the Association's balance sheet when the Association becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price and are classified as either 'basic' or 'other' in accordance with Chapter 11 of FRS 102. Subsequent to initial recognition, they are measured as set out below.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when the Association has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

2.8 Other financial Investments

The Association classifies its financial investments at fair value through profit and loss because they are managed and their performance is evaluated on a fair value basis.

Financial investments are recognised at trade date and subsequently measured at fair value. Fair values of financial investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions at an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The costs of financial investments denominated in currencies other than US dollars are translated into US dollars on the date of purchase. Any subsequent changes in value, whether arising from market value or exchange rate movements, are charged or credited to the Income and Expenditure Account in the period in which they occur.

Net gains or losses arising from changes in fair value of financial investments at fair value through profit or loss are presented in the Income and Expenditure Account within 'Unrealised gains/ (losses) on investments' in the period in which they arise.

2.9 Derivative financial instruments

The Association may use derivative financial instruments to reduce exposure to foreign exchange risk, including exposures arising from forecast transactions. The Association does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

2.10 Investment income

Investment return comprises dividend income from equities, income on fixed interest securities, interest on deposits and cash.

Dividends are recognised as income on the date the relevant securities are marked ex-dividend. Other investment income is recognised on an accruals basis.

2.11 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balance with banks, and investments in money market instruments which are readily convertible, being those with original maturities of three months or less. Cash and cash equivalents in foreign currency are translated based on the relevant exchange rates at the reporting date.

2.12 Foreign currencies

Items included in the Financial Statements are measured in US dollars. Transactions in foreign currencies have been translated into US dollars at the rate applicable for the month in which the transaction took place. At each reporting date monetary assets and liabilities that are denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the end of the reporting period. All exchange gains and losses, whether realised or unrealised, are included in foreign exchange gains and losses in the income and expenditure account.

2.13 Taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. The rates used in these calculations are those which are expected to apply when the timing differences crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

3. Critical accounting estimates and judgements

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following critical accounting estimates and judgements are made by the Association:

3.1 The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period.

3.2 Fair value estimations

In accordance with section 34 of FRS 102, as a financial institution, the Association applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value hierarchy:

The Financial Statements present an analysis of the level in the fair value hierarchy into which the fair value measurements are categorised.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (that is, prices) or indirectly (that is, derived from prices)

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

The below table presents the Association's assets and liabilities measured at fair value by level of the fair value hierarchy:

As at 20 February 2017	**Level 1 US$ '000**	**Level 2 US$ '000**	**Level 3 US$ '000**	**Total US$ '000**
Assets				
Government Fixed interest securities	-	4,289	-	4,289
Fixed income corporate bonds	6,480	2,040	-	8,520
Equity & Alternatives	15,540	3,946		19,486
UCITS	2,673	-	-	2,673
	24,693	**10,275**	**-**	**34,968**

The below table presents the Association's assets and liabilities measured at fair value by level of the fair value hierarchy:

As at 20 February 2016	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Assets				
Government Fixed interest securities	-	1,298	-	1,298
Fixed income corporate bonds	6,900	4,043	-	10,943
Equity & Alternatives	14,031	3,755		17,786
UCITS	1,589	-	-	1,589
	22,520	**9,096**	**-**	**31,616**
Liabilities				
Derivative financial instruments	-	(4)	-	(4)
	-	(4)	-	(4)

4. Management of Risk

The Association is governed by the Board of Directors which drives decision making within the Association from Board level through to operational decision making within the Managers. The Board considers the type and scale of risk that the Association is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

The Association is focussed on the identification and management of potential risks. This covers all aspects of risk management including that to which the Association is exposed through its core activity as a provider of insurance services, and the broader range of risks. The key areas of risk impairing the Association can be classified as follows:

4.1 Insurance risk – incorporating underwriting and reserving risk
4.2. Market risk – incorporating investment risk, interest rate risk and currency rate risk
4.3. Credit risk – being the risk that a counterparty is unable to pay amounts in full when due
4.4. Liquidity risk – being the risk that cash may not be available to pay obligations as they fall due
4.5. Operational risk – being the risk of failure of internal processes or controls
4.6 Limitation of the sensitivity analyses
4.7 Capital Management

4.1 Insurance Risk

The Association's exposure to insurance risk is initiated by the underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on the Association from a Member. The risk is managed by the underwriting process, acquisition of reinsurance cover, and the management of claims costs.

Underwriting process

The Association has an underwriting policy which is approved by the Board annually which manages the underwriting risk. The policy sets out the processes of how the risk is managed.

Underwriting authority is delegated to specific individuals who operate under set underwriting parameters and the on-going guidance and review of senior management. These parameters cover areas such as screening of potential new Members and risks to ensure that they fall within the Association's guidelines for acceptable risk.

Reinsurance

The Association operates a risk transfer strategy to provide protection against claims and so safeguard its insurance risks through acquisition of reinsurance cover for 100% of risks committed.

During the year ended 20 February 2017, about 82% of the contract was insured at Lloyd's, with the balance being reinsured by insurance companies in the UK and overseas.

The risk of the Association's reinsurers being unable to meet their obligations is presented in section 4.3 Credit Risk.

The Association considers that the liability for insurance claims recognised in the consolidated statement of financial position is adequate as all claims are fully reinsured.

4.2 Market Risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

The investment mandate is formally reviewed every three years but informally reviewed at every Board meeting by the Board of Directors. The mandate reflects the risk appetite of the Association and is designed to holding the risk to a level deemed acceptable while maximising return.

The mandate sets the guidelines for the investment manager to invest the portfolio in order to meet the investment objectives set by the Board.

Foreign currency risk management

The Association is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US dollars. The most significant currencies to which the Association is exposed are Sterling and the Euro

The majority of the Association's administration costs are in Sterling and it may use forward currency contracts to protect its currency exposures. The Association does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

The profile of the Association's assets and liabilities, categorised by settlement currency, at their translated carrying amount, is set out below.

As at 20 February 2017	US Dollar US$ '000	Sterling US$ '000	Euro US$ '000	Total US$ '000
Fixed interest-Government	4,289	-	-	4,289
Fixed interest-Corporate	8,498	-	-	8,498
Equity & Alternatives	22,181	-	-	22,181
Debtors	671		42	713
Cash and cash equivalents	139	105	50	294
Other	105	-	-	105
	35,883	**105**	**92**	**36,080**

As at 20 February 2016	US Dollar US$ '000	Sterling US$ '000	Euro US$ '000	Total US$ '000
Fixed interest-Government	1,298	-	-	1,298
Fixed interest-Corporate	10,910	-	-	10,910
Equity & Alternatives	19,408	-	-	19,408
Reinsurers' share of technical provisions	14	-	-	14
Debtors	423	-	30	453
Cash and cash equivalents	98	264	51	413
Other	101	-	-	101
	32,252	**264**	**81**	**32,597**

Foreign currency sensitivity analysis
As at 20 February 2017 if the US dollar weakened/strengthened by 5% against the Euro and Sterling ,with all other factors remaining unchanged free reserves for the year would have increased /decreased by US$.017 million.

Interest rate risk management
Interest rate risk arises primarily from investments in fixed interest securities the value of which is inversely correlated to movements in market interest rates.

Interest rate risk is managed through the investment strategy and accordingly debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds.

Interest rate sensitivity analysis
An increase of 100 basis points in interest rates at the year-end date, with all other factors unchanged will result in a US$0.128 million fall in the value of the Associations investments.

Equity price risk
The Association is exposed to price risk through its holding of equities and alternatives as financial investments at fair value through profit and loss. At the year end the holding in equity and alternative instruments amounted to 56% of the investment portfolio (2016: 56%)

A 10% increase in equity values would be estimated to have increased the surplus before tax at the year-end by US$1.949 million. A 10% fall in equity values would have an equal and opposite effect. This analysis assumes that all other variables remain constant

4.3 Credit Risk
Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Association.

The key areas where the Association is exposed to credit risk are:

Amounts recoverable from reinsurance contracts
Amounts due from Members and
Counterparty risk with respect to cash and investments

Amounts recoverable on reinsurance contracts
The Association is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Board considers the financial position of significant counterparties. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to "A" at the time the contract is made and 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.

Amounts due from Members
Amounts due from Members represents premium owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable. In addition, the Directors reserve the right to offset outstanding claims payments with outstanding debt unless there is a contractual arrangement that prevents such offsetting. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments
The Investment Mandate sets out the investment limits which the fund manager has to adhere to. All fixed interest and floating rates investments have to be A-rated, with the exception of its holding of a perpetual subordinated capital bond which is not A- rated. No rating is required for equity and alternative holdings. The credit risk for equities and alternatives is managed by the limits set by the Directors in the Investment Mandate, as well as the monthly monitoring of their performance by the Investment Manager.

The following tables provide information regarding aggregate credit risk exposure for financial assets with external credit ratings.

As at 20 February 2017	AAA/AA US$ '000	A US$ '000	BBB or less or not rated US$ '000	Total US$ '000
Fixed interest-Government	4,288	-	-	4,288
Fixed interest-Corporate	501	7,478	519	8,498
Equity & Alternatives	-	-	19,486	19,486
Debtors	-	-	713	713
UCITS	2,673	-	-	2,673
Settlement account	-	-	23	23
Cash and cash equivalents	-	-	294	294
Other	-	-	105	105
	7,462	**7,478**	**21,140**	**36,080**

As at 20 February 2016	AAA/AA US$ '000	A US$ '000	BBB or less or not rated US$ '000	Total US$ '000
Fixed interest-Government	1,298	-	-	1,298
Fixed interest-Corporate	2,004	8,391	515	10,910
Equity & Alternatives	-	-	17,786	17,786
Reinsurers' share of technical provisions	14	-	-	14
Debtors	-	-	453	453
UCITS	1,589	-	-	1,589
Settlement account	-	-	33	33
Cash and cash equivalents	-	-	413	413
Other	-	-	101	101
	4,905	**8,391**	**19,301**	**32,597**

There were no past due or impaired assets at 20 February 2017 (2016: Nil).

4.4 Liquidity Risk

Liquidity and cash flow risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Association maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities and unexpected levels of demand. As at 20 February 2017, the Association's short term deposits (including cash and UCITS) amounted to US$2.990million (2016: US$2.035million).

The Associations' total liabilities at 20 February 2017, including claims estimates, were US$1.457million (2016: US$0.763 million) all due within 12 months (2016: due within 12 months) from the balance sheet date. The Association has sufficient liquid assets to meet its liabilities as they fall due.

The tables below provide a maturity analysis of the Association' financial assets:

As at 20 February 2017	Short term assets US$ '000	Within 1year US$ '000	2-5year US$ '000	Over 5 years US$ '000	Total US$ '000
Fixed interest-Government	-	-	4,288	-	4,288
Fixed interest-Corporate		5,998	1,981	519	8,498
Equity & Alternatives	19,486	-	-	-	19,486
Debtors	713	-	-	-	713
UCITS	2,673	-	-	-	2,673
Settlement account	23	-	-	-	23
Cash and cash equivalents	294	-	-	-	294
Other	105	-	-	-	105
	23,294	**5,998**	**6,269**	**519**	**36,080**

As at 20 February 2016	Short term assets US$ '000	Within 1year US$ '000	2-5year US$ '000	Over 5 years US$ '000	Total US$ '000
Fixed interest-Government	-	-	1,298	-	1,298
Fixed interest-Corporate	-	901	9,494	515	10,910
Equity & Alternatives	17,786	-	-	-	17,786
Reinsurers' share of technical provisions				14	14
Debtors	423	-	-	-	453
UCITS	1,589	-	-	-	1,589
Settlement account	33	-	-	-	33
Cash and cash equivalents	413	-	-	-	413
Other	101	-	-		101
	20,345	**901**	**10,792**	**529**	**32,597**

4.5 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association has engaged Thomas Miller War Risk Services Limited as managers to document all key processes and controls in a procedural manual. This manual is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Board of Directors. A human resource manual and including all key policies have also been documented.

4.6 Limitation of the sensitivity analysis
The sensitivity analyses in section 4.2 shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above

4.7 Capital management
The Association maintains capital, comprising of policyholders' funds (surplus and reserves), consistent with the Association's risk appetite and the regulatory requirements.

The Association's objective is to keep its regulatory capital reserves between US$25m to US$35m to ensure it is able to continue as a going concern, meet regulatory requirements and maintain an "A-" rating with A. M. Best.

The Association's continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the new Solvency II regime the Association is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5% confidence level of solvency. Throughout the period the Association complied with the regulators capital requirements and the requirements in the other countries in which it operates.

At the year end the Association's Regulatory Capital Reserves were US$35.1 m. This exceeded the Solvency Capital Requirement (SCR) of US$12.9 m by US$22.2 m

5 Contributions and premiums
Contributions and premium have been charged as follows:

	2017 US$ '000	2016 US$ '000
Advance contributions	1,076	954
Total advance contributions	1,076	954
Additional premiums	1,746	928
Total net contributions and premiums	**2,822**	**1,882**

At the Directors' meeting held on 17 January 2017, it was decided that no return of call should be made to Members of the Advance Contributions due in respect of the 2016 policy year (2015 policy year: Nil) upon the closing of that year.

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

6. Reinsurance premiums

	2017 US$ '000	2016 US$ '000
Advance contributions	426	356
Total reinsurance for advance contributions	426	356
Additional premiums	1,331	715
Total reinsurance for additional premiums	1,331	715
Total reinsurance premium	**1,757**	**1,071**

(a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is, for the 2016/2017 Policy Year, fully reinsured (except as described below) without deductible up to US$950 million each vessel. In addition, the separate limit provided to Members in respect of Rule 2C risks or US$500 million is also fully reinsured on the same contract. (The "main reinsurance contract"). The sums insured in other currencies (excluding SDR) are determined by reference to the rates of exchange published in the Financial Times on 20 February 2017.

There is a 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 SDR (Special Drawing Rights) US$340 million any one accident or occurrence.

(b) For claims arising in the Indian Ocean/Arabian Sea /Gulf of Aden / Gulf of Oman and Southern Red Additional Premium areas in 2016, a deductible of US$250,000 on each and every loss is applicable on the main reinsurance contract.

7. Other technical income

	2017 US$ '000	**2016 US$ '000**
Commission income	236	144

Commission income comprises commission earned on reinsurance rates for transits of calls to Additional Premium Areas and continuity credits payable by reinsurers to the Association on renewal of the reinsurance contract.

8. Claims and technical provisions

The Association is fully reinsured for all claims incurred. At the last financial year (2015 Policy Year) there were two notified claims which were fully reinsured. US$11k of claims payments were made in the current year. This resulted in the prior year provision of US$14k being reduced to Nil.

No new claims were notified to the Association in the current financial year (2016 Policy Year). As such it has not been necessary to set out a claims development table.

9. 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.

	2017 US$ '000	**2016 US$ '000**
Brokerage on premiums	195	192
Management fee allocated to acquisition costs (note 18)	224	209
	419	**401**

10. Administration costs

	2017 US$ '000	2016 US$ '000
Managers' costs (Note 18)	894	836
Management Incentive Fee	-	-
Directors' fees	29	26
Directors' travel and meeting expenses	26	27
Directors' and Officers' insurance	12	13
Managers' travel and meeting expenses	45	36
Auditors' Remuneration	55	28
Other professional fees	69	90
Printing and Stationery (including Rule Books)	17	24
Communications – telephones, facsimile and postage	5	4
Bank charges	4	4
Sundry Expenses	2	5
	1,158	1,093
Investment Management Fees	3	7
	1,161	**1,100**

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.

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

The Association has no employees.

11. Investments and other income

	2017 US$ '000	2016 US$ '000
Dividends from equities	296	266
Interest on bonds and government stocks	199	171
Interest on bank deposits	15	4
	510	441
Exchange gain/ (loss) arising during the year	(102)	18
	408	**459**

The year-end rates of exchange equivalent to US$1 was:

	2017	2016
US Dollar	1.0000	1.0000
Euro	0.9416	0.9004
Sterling	0.8017	0.7009
Chinese Yuan Renminbi	6.8785	6.5201
Japanese Yen	113.125	112.774
Australian Dollar	1.3018	1.4101
Norwegian Krone	8.3310	8.5869

12. Taxation

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

	2017 US$ '000	2016 US$ '000
Corporation tax at 20% (2016: 21%)		
Current year	177	193
Adjustment in respect of prior period	-	(11)
Actual tax per profit and loss	**177**	**182**

The current taxation charge for the year is detailed below.

	2017 US$ '000	2016 US$ '000
Surplus/ (deficit) on ordinary activities before taxation	3,482	(1,567)
Theoretical tax at UK Corporation Tax rate of 20% (2016: 21%)	697	(329)
Effects of:		
- Balance on the technical account not taxable	53	119
UK dividends not taxable	(59)	(53)
- Unrealised gain on equities not taxable	(475)	506
- Indexation allowance on realised gains	(39)	(50)
	177	193
Adjustment in respect of prior period	-	(11)
Actual current tax charge	**177**	**182**

b) Creditors

	2017 US$ '000	2016 US$ '000
Corporation tax payable	160	170
Actual current tax charge	**160**	**170**

13. Other financial investments

	Market Value 2017 US$ '000	Market Value 2016 US$ '000	Cost 2017 US$ '000	Cost 2016 US$ '000
Government Fixed interest securities	4,289	1,298	4,343	1,277
Fixed Income Corporate bonds	8,498	10,910	8,522	10,933
Equity & Alternatives	19,486	17,786	15,284	16,332
UCITS	2,672	1,589	2,673	1,589
Settlement Account	23	33	227	144
Net fair value	**34,968**	**31,616**	**31,049**	**30,275**

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.

14. Cash and cash equivalents

	2017 US$ '000	2016 US$ '000
Cash at bank and in hand	294	413

15. Prepayments

	2017 US$ '000	2016 US$ '000
Prepayments	46	51

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

16. Derivative Financial Instruments

Forward foreign exchange contracts

The notional principal amount of the outstanding forward foreign exchange contracts at 20 February 2017 was nil (2016: US$0.243 million). Gains and losses on forward foreign exchange contracts are recognised in the income and expenditure accounts in the period or periods during which the hedged forecast transaction is reflected in the income and expenditure account. This is generally within twelve months from the end of the reporting period.

The following table details the foreign currency contacts outstanding at the year-end:

Derivative financial instrument	Notional amount US$ '000	Fair value asset/ (liability) US$ '000
2017	-	-
2016	0.243	(4)

17. Accruals

	2017 US$ '000	2016 US$ '000
Audit, accountancy and taxation	29	29
Accrued expenses	9	2
	38	**31**

Accrued expenses relate to expenses not yet paid.

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

	2017 US$ '000	2016 US$ '000
Acquisition costs	224	209
Administration	894	836
	1,118	**1,045**

19. 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.

The majority of 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.

20. 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 Of Thomas Miller War Risks Services Limited

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R.A.A. Harnal
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