The first international war risks mutual

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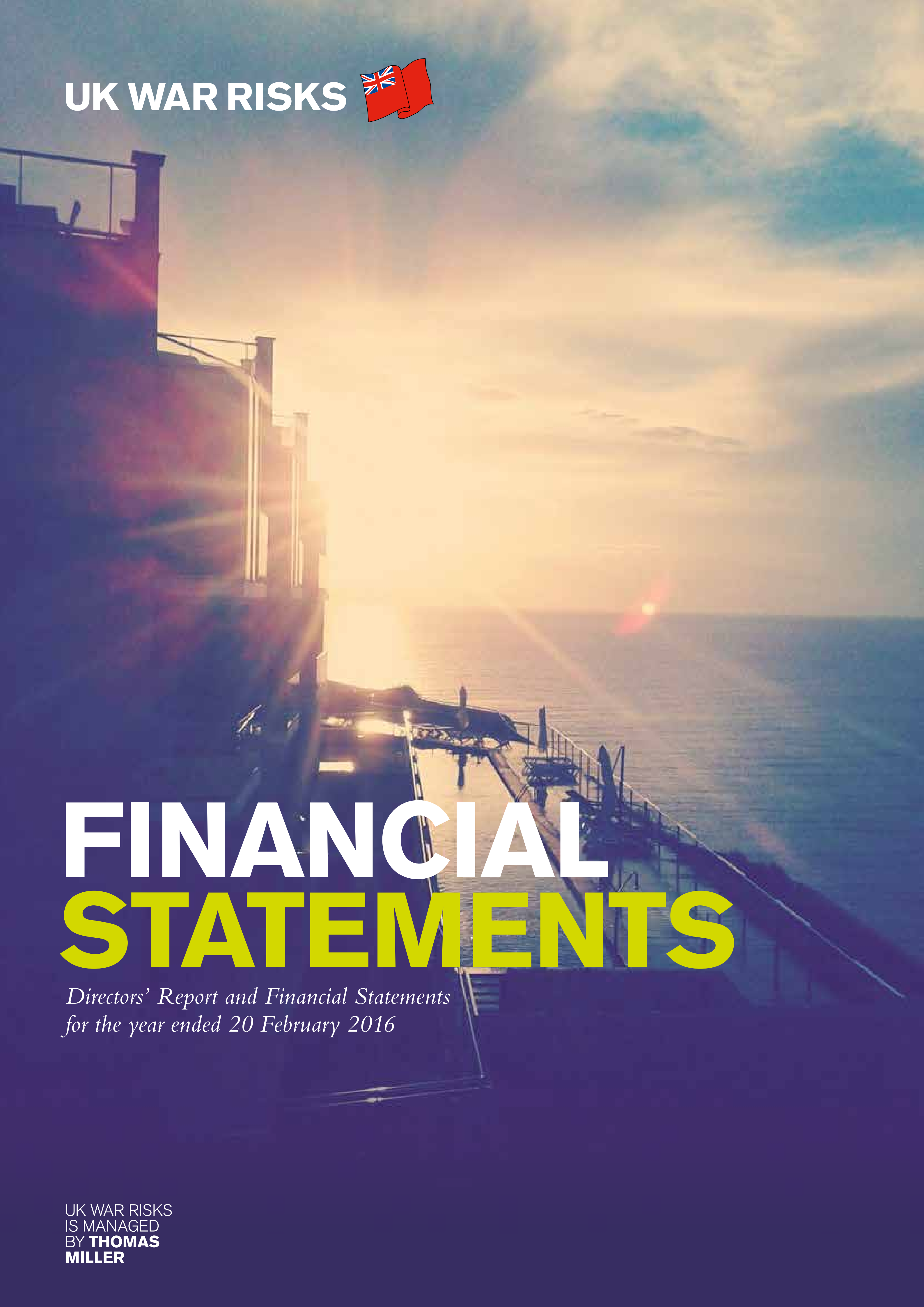
The United Kingdom Mutual War Risks Association Limited

Registered Office
90 Fenchurch Street, London, EC3M 4ST

Registered in England
No. 127262



UK WAR RISKS

FINANCIAL STATEMENTS

Directors' Report and Financial Statements for the year ended 20 February 2016

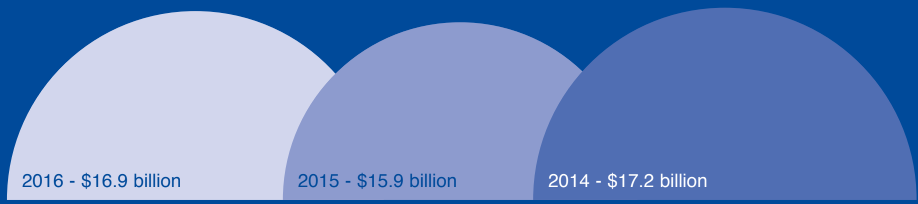
UK WAR RISKS IS MANAGED BY **THOMAS MILLER**

UK WAR RISKS AT A GLANCE

For the year ended 20 February 2016

Total Entered Value

$16.9bn



Total Number of Ships Entered

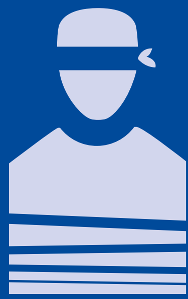
989

A- Rating

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

A- stable

Pirate Activity



Despite global improvements, kidnappings are on the rise, with 44 crew captured for ransom in the first half of 2016, 24 of them in Nigeria.

(Source: IMB Piracy Reporting Centre)

End of Year Reserves

$31.8m

AP Areas

South America
- Venezuela

Africa
- Benin
- Gulf of Guinea
- Libya
- Nigeria
- Somalia
- Togo
- Gulf of Aden / Indian Ocean

Middle East
- Iran
- Iraq
- Israel
- Lebanon
- Saudi Arabia
- Syria
- Yemen

The first international war risks mutual

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

CONTENTS

* These sections make up the Directors' Report

Registered Number: 127262

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

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

CHAIRMAN'S STATEMENT

The Club is now truly international

2015 was characterised once again by a volatile global operating environment for ships and their crews. In addition to weak freight markets, with the dry bulk and offshore sectors being particularly badly affected by a weakening of Chinese demand for imports of raw materials and the depressed oil price respectively, threats to shipping remained a concern in many areas of the world. Libya, Yemen and Syria continue to be areas where real threats to ships exist and, after a period of relative calm, there has been a recent resurgence of attacks on ships by Nigerian pirates/kidnappers with several incidents involving crewmembers being kidnapped and held for ransom. I am pleased that none of these incidents involved any Members of the Club.

Somali piracy activity remained benign, due to ships' on going anti-piracy efforts and the continuing naval presence in the Gulf of Aden and Indian Ocean. In common with most war risks insurers, the Club amended its Indian Ocean Additional Premium area on 1 January 2016 to reflect the reduced threat. However, as several commentators have remarked, there is a real danger of complacency leading owners to consider the Somali piracy threat as having been defeated. I share their view that this is not. Rather, it has been suppressed and I urge Members to continue their anti-piracy efforts to minimise the risks of ships being hijacked.

After a long run of positive performance, equity markets fell in August and September 2015 and, after recovering in late 2015, suffered further setbacks in early 2016. Bond yields remain at extremely low levels by long-term standards. This adversely affected the investment return achieved during the year. The Club's extremely strong financial position, with free reserves far exceeding the higher capital requirements of the Solvency II regime, enable it to take a long-term view of investment performance and position the investment portfolio to maximise long-term returns. The Club's Directors regularly review investment performance and strategy and remain of the belief that the portfolio's asset allocation strategy is appropriate to provide above industry benchmark returns whilst not taking excessive risks with Members' funds.

Despite a poor investment return in 2015, the Board rewarded Members' loyalty with a further reduction in annual premiums at the 2016 renewal. These stand at nearly half their level in 2013 and the Board remains committed to providing the most competitive rates and terms to Members, together with market leading breadth of cover and levels of service. Although the war risks market remains extremely competitive, I am delighted to report that one of the world's largest tanker fleets has recognised these benefits of membership, having entered the Club at the 20 February 2016 renewal. It was encouraging to note that this was in addition to the entry of several other fleets in 2015 against competition from a commercial market which is overburdened by capacity. I welcome these new entries to the Club. They join a roster of blue-chip Members including BG/Shell, Svitzer A/S and Esvagt A/S.

Although originally a Club for UK shipping interests only, the Club is now truly international, with well over half the entered tonnage being non-UK domiciled.

Operating as a niche, specialist war risks insurer can have potential disadvantages in what is an increasingly costly regulatory environment. However, Members do benefit from having a Club dedicated to their interests solely with regard to war risks insurance and which is not influenced by potentially competing demands of other classes of business or of other insurance or non-insurance activities. It is this which sets the Club apart from its competition.

I would like to take this opportunity once again to thank Members, both new and old, for their continued support of the Club.

T Stage
Chairman
20 April 2016

INTERNATIONAL

The Association will continue diversifying 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 2016

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

WAR RISKS

The Association will maintain its focus on war risks

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 Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During the year ended 20 February 2016, about 77% of the contract was insured at Lloyd's, with the balance being reinsured by 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.

MUTUALITY

Members continued to benefit from very competitive Additional Premium rates

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 on average by 12% for the coming 2016 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. Two new claims were notified during the year ended 20 February 2016 which are fully reinsured. 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 level of cover and service it provides Feedback gave opportunities to respond to Members' specific needs and further improve the service the Associations provides.

INVESTMENTS

Primary investment objective is to conserve and accumulate capital

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 2016 was negative (3.15%) (2015: 5.50%).

The negative return for the year was driven primarily by the fall in equities offset by small increases in its holding in Fixed Income and Alternatives.

FINANCES

25% reduction on annual rates in 2015

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ended 20 February 2016, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 18 October 2016.

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	**2016**	**2015** (Restated)
Gross premium written	1,882	2,108
Outward reinsurance premium	(1,071)	(1,174)
Other technical income	144	153
Acquisition and administration costs	(1,501)	(1,686)
Operating deficit on the technical account	(546)	(599)
Net investment income / (loss) after tax	(1,203)	1,572
Surplus / (deficit) for the year after tax	(1,749)	973
Reserves brought forward	33,583	32,610
Reserves carried forward	**31,834**	**33,583**

Gross premium written for the year ended 20 February 2016 reduced by 11%. This was due to the further softening of the rating environment and includes the effect of the 25% reduction in annual premium rates at the 20 February 2015 renewal.

The fall in income was partially offset by lower reinsurance premiums. A negative investment return was recorded at the year-end, due to poor equity market performance and continuing low returns from cash and fixed interest investments.

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 18 October 2016 at 9.30am for the following purposes:-

- To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2016 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
20 April 2016

DIRECTORS' REPORT

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2016.

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 2016, 989 ships, with a total value of $16.9 billion, were entered in the Association. The corresponding figures for 20 February 2015 were 880 ships, with a total entered value of $15.9 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 2016, 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 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'E;
On the southern side a straight line from there to position Latitude 3° North, Longitude 8° 31 East and then from there to the border, on the cost 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 67° 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 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.

With these factors in mind, and having reviewed the Association's reserving policy during the year, the Directors have decided that the Association should continue to maintain reserves within a range of between $25 million and $35 million. The Directors monitor the Association's reserves and its financial results by reviewing management accounts at every 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 4.

At the Annual General Meeting on 18 October 2016, Mr H Scheffer 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 2015 Policy Year, the Directors held three formal meetings: one in April 2015, one in October 2015 and one in January 2016.

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 2015, 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 2015.

Internal Audit and Risk: Approved Internal audit frame work, received reports on Internal Audit personnel changes, Business Risk Assessment, and on operational risk losses, near misses and emerging risks.

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 2015 Policy Year, receiving renewal report; approving reinsurance arrangements for the 2016 Policy Year; and rates and terms to Members for the 2016 Policy Year.

Solvency II: On-going review of the implementation plans; review of the following policies: Outsourcing, Data, Disclosure & reporting, Underwriting & reinsurance, ORSA and Capital Management Policy. Approved terms of reference for Board of Directors and Actuaries. Approved Governance chart. 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.

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 18 October 2016.

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
20 April 2016

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to The Members of The United Kingdom Mutual War Risks Association Limited

We have audited the financial statements of The United Kingdom Mutual War Risks Association Limited for the year ended 20 February 2016 which are set out on pages 20 to 37 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Scope of the audit of 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 2016 and of its result 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
- 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

20 April 2016

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 AND MOVEMENT IN RESERVES

for the year ended 20 February 2016

	Note	2016 $'000	2015 $'000 Restated
Technical Account			
Gross premium written	5	1,882	2,108
Outward reinsurance premium	6	(1,071)	(1,174)
		811	934
Other technical income	7	144	153
Claims			
- Change in the provision for claims			
Gross outstanding claims		(14)	-
Reinsurers' share		14	-
Claims incurred, net of reinsurance	8	-	-
Acquisition costs	9	(401)	(458)
Administration costs	10	(1,100)	(1,228)
Balance of the technical account		(546)	(599)
Non Technical Account			
Balance of the technical account		(546)	(599)
Investment and other income	11	459	303
Gains / (losses) on the realisation of investments		1,025	890
Unrealised gains / (losses) on investments		(2,505)	517
Surplus / (deficit) on ordinary activities before tax		(1,567)	1,111
Tax on ordinary activities	12	(182)	(138)
Surplus / (deficit) on ordinary activities after tax		**(1,749)**	**973**
Reserves brought forward	19	33,583	32,610
Reserves carried forward		**31,834**	**33,583**

All activities represent continuing activities. There are no recognised gains or losses other than the surplus for the year.
The notes on pages 20 to 37 form an integral part of these Financial Statements.

BALANCE SHEET

As at 20 February 2016

	Note	2016 $'000	2015 $'000 Restated
Assets			
Other Financial Investments	13	**31,616**	**33,623**
Reinsurers' share of technical provisions			
Claims outstanding		14	-
Debtors			
Debtors arising out of direct insurance operations			
- Policy holders		308	182
Debtors arising out of reinsurance operations		144	153
		452	**335**
Cash at bank and in hand	14	**413**	**668**
Prepayments	15	**51**	**53**
Accrued Interest		**51**	**38**
		32,597	**34,717**
Reserves and liabilities			
Reserves			
Income and Expenditure		31,834	33,583
Technical Provisions			
Claims outstanding		14	-
Creditors			
Derivative financial instruments	16	4	20
Creditors arising out of direct insurance operations		243	492
Creditors arising out of reinsurance operations		301	258
Other creditors including taxation		170	179
		718	949
Accruals	17	31	185
		32,597	**34,717**

These Financial Statements were approved by the Board of Directors on 20 April 2016.

Signed on behalf of the Board of Directors:

Mr T Stage
Chairman

Mr A Davies
Deputy Chairman

R A A Harnal
Thomas Miller War Risks Services Limited as Managers.

The notes on pages 20 to 37 form an integral part of these Financial Statements.

CASH FLOW STATEMENT

For the year ended 20 February 2016

	Note	2016 $'000	2015 $'000 Restated
Operating activities			
Premiums received		1,755	2,124
Reinsurance premium paid		(1,028)	(1,822)
Other operating income received		153	294
Acquisition costs paid		(401)	(458)
Administration costs paid		(1,500)	(1,095)
Taxation paid		(191)	(129)
Net cash provided / (used) by operating activities		**(1,211)**	**(1,086)**
Cash flows from investment activities			
Purchase of investments		(25,142)	(24,530)
Sale of investments		25,652	24,745
Interest received		162	89
Dividends on investments in equities		**284**	**200**
Net cash flow from investment activities		**956**	**504**
Net increase / (decrease) in cash and cash equivalents		**(255)**	**(582)**
Cash and cash equivalents at the beginning of the year		668	1,250
Cash and cash equivalents at the end of the year	14	**413**	**668**

The notes on pages 20 to 37 form an integral part of these Financial Statements.

Notes to the Financial Statements

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 38.

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 prior year financial statements were restated for transition adjustments on adoption of FRS 102 in the current year. Details of the transition to FRS 102 and FRS 103 are disclosed in Note 19.

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 on a notification basis. Premiums for a period of cover after the year-end are treated as unearned.

2. Accounting policies (continued)

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 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.

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

The association has chosen to apply the recognition, measurement and disclosure requirements of FRS 102 in respect of 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.

2. Accounting policies (continued)

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 uses 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 premeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

2.10 Investment returns

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 balances 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 Association has adopted early the amendment to FRS 102 in relation to Fair Value Hierarchy Disclosures and presented 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 table below 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 $'000	Level 2 $'000	Level 3 $'000	Total $'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)**

3. Critical accounting estimates and judgements (continued)

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 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Government Fixed interest securities	-	2,604	-	2,604
Fixed income corporate bonds	8,012	6,006	-	14,018
Equity & Alternatives	11,144	3,300		14,444
UCITS	2,557	-	-	2,557
	21,713	**11,910**	**-**	**33,623**
Liabilities				
Derivative financial instruments				(20)
		(20)		**(20)**

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. Management of risk (continued)

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 2016, about 77% 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 uses forward currency contracts to protect its currency exposures. The Association does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

4. Management of risk (continued)

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 2016	US Dollar $'000	Sterling $'000	Euro $'000	Total $'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 2016 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 $.017m. A 5% weakening of these currencies against the US dollar would have an equal and opposite effect.

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$0.166m fall in the value of the Associations investments. A decrease of 100 basis points would have an equal and opposite effect.

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 instruments amounted to 56 per cent of the investment portfolio (2015: 43%)

A 10% increase in equity values would be estimated to have increased the surplus before tax at the year-end by $17.8 million. A 10% fall in equity values would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

4. Management of risk (continued)

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

As at 20 February 2016	AAA/AA $'000	A $'000	BBB or less or not rated $'000	Total $'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**

4. Management of risk (continued)

As at 20 February 2015	AAA/AA $'000	A $'000	BBB or less or not rated $'000	Total $'000
Fixed interest-Government	2,604	-	-	2,604
Fixed interest-Corporate	5,014	9,004	-	14,018
Equity & Alternatives	-	-	14,444	14,444
Debtors	-	-	335	335
UCITS	2,789	-	-	2,789
Settlement account	-	-	(232)	(232)
Cash and cash equivalents	-	-	668	668
Other	-	-	91	91
	10,407	**9,004**	**15,306**	**34,717**

There were no past due or impaired assets at 20 February 2016 (2015: 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 2016, the Association's short term deposits (including cash and UCITs) amounted to US$2.035 million (2015: US$3.225 million).

The Associations' total liabilities at 20 February 2016, including claims estimates, were US$ 0.763m (2015: US$ 1,134m) all due within 12 months (2015: due within 12 months) from the balance sheet date. The Association has sufficient liquid assets to meet its liabilities as the fall due.

As at 20 February 2016	Short term assets $'000	Within 1 year $'000	2-5 years $'000	Over 5 years $'000	Total $'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. Management of risk (continued)

As at 20 February 2015	Short term assets $'000	Within 1 year $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Fixed interest -Government	-	1,599	1,005	-	2,604
Fixed interest -Corporate	-	-	14,018	-	14,018
Equity & Alternatives	14,444	-	-	-	14,444
Debtors	335	-	-	-	335
UCITS	2,789	-	-	-	2,789
Settlement account	(232)	-	-	-	(232)
Cash and cash equivalents	668	-	-	-	668
Other	91	-	-	-	91
	18,095	**1,599**	**15,023**	**-**	**34,717**

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

4. Management of risk (continued)

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 per cent 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 capital resources included reserves of $31.8 million (2015: $33.5 million)

5 Contributions and premiums

Contributions and premium have been charged as follows:

	2016 $'000	2015 $'000
Advance contributions	954	1,206
Total advance contributions	954	1,206
Return of call		
Advance contributions	-	2
Total return of call	-	2
Additional premiums	928	900
Total additional premiums	928	900
Total net contributions and premiums	**1,882**	**2,108**

At the Directors' meeting held on 12 January 2016, it was decided that no return of call should be made to Members of the Advance Contributions due in respect of the 2015 policy year (2014 policy year: Nil) upon the closing of that year. The $2k relates to a return of call adjustment made in 2015.

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

6 Reinsurance premiums

	2016 $'000	2015 $'000
Advance contributions	356	504
Total reinsurance for advance contributions	356	504
Additional premiums	715	670
Total reinsurance for additional premiums	715	670
Total reinsurance premium	**1,071**	**1,174**

(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 2016. 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.

(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.

7. Other technical income

	2016 $'000	2015 $'000
Commission income	144	153

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.

8. Claims and technical provisions

The Association is fully reinsured for all claims incurred. No claim payments have been made in the current year (2015: $nil). The $14k shown in the income & expenditure account is a provision for a claim that has been notified during the year.

Claims Technical Account

	2016 $'000	2015 $'000
Change in the provision for claims		
Movement in the year		
Gross claims	14	-
Reinsurance	(14)	-

Claims Balance sheet

	2016 $'000	2015 $'000
Claims outstanding Technical provisions		
Reinsurer's share of technical provision	14	-
Gross amount due to policy holder Reinsurance	14	-

This financial year the Association was notified of two claims on the 2015/16 policy year. Together these are reserved at $14k. The Association has recorded reinsurance recoveries of $14k in respect of these claims. So there is a nil impact net of reinsurance of both these claims. These are the only claims that the Association has been notified of and had to reserve for the past five policy years. As such it has not been necessary to set out a claims development table.

9. Acquisition costs

	2016 $'000	2015 $'000
Brokerage on premiums	192	242
Management fee allocated to acquisition costs	209	216
	401	**458**

10. Administration costs

	2016 $'000	2015 $'000
Managers' costs (Note 18)	836	865
Management Incentive Fee	-	154
Directors' fees	26	31
Directors' travel and meeting expenses	27	29
Directors' and Officers' insurance	13	14
Managers' travel and meeting expenses	36	26
Auditors' Remuneration	28	34
Other professional fees	90	45
Printing and Stationery (including Rule Books)	24	12
Communications – telephones, facsimile and postage	4	3
Bank charges	4	4
Sundry Expenses	5	5
	1,093	**1,222**
Investment Management Fees	7	6
	1,100	**1,228**

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.

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

11. Investments and other income

	2016 $'000	2015 $'000
Dividends from equities	266	172
Interest on bonds and government stocks	171	168
Interest on bank deposits	4	3
	441	**3439**
Exchange (loss)/gain arising during the year	18	(40)
	459	**303**

11. Investments and other income (continued)

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

	2016 $'000	2015 $'000
US Dollar	1.0000	1.0000
Euro	0.9004	0.8796
Sterling	0.7009	0.6506
Chinese Yuan Renminbi	6.5201	6.2551
Japanese Yen	112.774	118.759
Australian Dollar	1.4101	1.2770
Norwegian Krone	8.5869	7.5270

12. Taxation

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

	2016 $'000	2015 $'000
Corporation tax at 20% (2015: 21%)		
Current year	193	179
Adjustment in respect of prior period	(11)	(41)
Actual tax per profit and loss	**182**	**138**

The current taxation charge for the year is detailed below.

	2016 $'000	2015 $'000 Restated
Surplus on ordinary activities before taxation	(1,583)	1,111
Theoretical tax at UK Corporation Tax rate of 21% (2015: 21%)	(318)	233
Effects of:		
- Balance on the technical account not taxable	108	126
- UK dividends not taxable	(53)	(37)
- Withholding tax on interest (recoverable)	-	1
- Unrealised gain on equities not taxable	506	(104)
- Indexation allowance on realised gains	(50)	(44)
Marginal relief	-	(3)
	193	172
Adjustment in respect of prior period	(11)	(41)
Effect on FRS102 restatement to reserves	-	7
Actual current tax charge	**182**	**138**

12. Taxation (continued)

b) Creditors

	2016 $'000	2015 $'000
Corporation tax payable	170	179
	170	**179**

13. Other financial investments

	Market Value 2016 $'000	Market Value 2015 $'000	Cost 2016 $'000	Cost 2015 $'000
Government Fixed interest securities	1,298	2,604	1,277	2,607
Fixed Income Corporate bonds	10,910	14,018	10,933	14,019
Equity & Alternatives	17,786	14,444	16,331	10,509
UCITS	1,589	2,789	1,589	2,789
Settlement Account	33	(232)	144	(232)
	31,616	**33,623**	**30,275**	**29,692**

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

	2016 $'000	2015 $'000 Restated
Cash at bank and in hand	**413**	**668**

15. Prepayments

	2016 $'000	2015 $'000 Restated
Prepayments	**51**	**53**

16. Derivative Financial Instruments

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 20 February 2016 were $0.243m (2015: $1.049m). The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next twelve months. Gains and losses on forward foreign exchange contracts as at 20 February 2016 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 account This is generally within twelve months of 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 $'000	Fair value asset / (liability) $'000
2016	0.243	(4)
2015	1.049	(20)

17. Accruals

	2016 $'000	2015 $'000
Audit, accountancy and taxation	29	29
Accrued expenses	2	156
	31	**185**

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

18. Managers' remuneration

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

	2016 $'000	2015 $'000
Acquisition costs	209	216
Administration	836	865
Incentive Fee	-	154
	1,045	**1,235**

19. Explanation of transition to FRS102

This is the first year that the Association has presented its financial statements under Financial Reporting Standard 102 and 103 as issued by the Financial Reporting Council. The last financial statements under previous UK GAAP were for the year ended 20 February 2015 and the date of transition to FRS 102 was therefore 21 February 2014. As a consequence of adopting FRS 102, financial derivatives transactions have to be recognised in the balance sheet.

The impact of recognising these transactions is shown below:

19.1 Impact on reserves

	2015 $'000	2014 $'000
Reserves as previously stated	33,603	32,610
Adjustments to reserves on transition to FRS 102		
Derivative financial instruments	(20)	-
Restated reserves under FRS 102	**33,583**	**32,610**

19.2 Impact on income and expenditure account

	2015 $'000	2014 $'000
Surplus on ordinary activities after tax	993	1,277
Adjustments to income and expenditure account on transition to FRS 102		
Derivative financial instruments	(20)	-
Restated surplus on ordinary activities after tax	**973**	**1,277**

20. 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.

21. 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

K. Halpenny
R. A. A. Harnal
R. Lingard
A. E. Ward
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