UK WAR RISKS

Annual Report and Financial Statements

For the year ended 20 February 2018

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

Contents

UK War Risks at a glance

Total Entered Value

$19bn

Surplus for the Year

$2.5m

Total Number of Ships Entered

636

Investment Return

8.5%

Pirate Activity

Piracy and armed robbery against ships
Types of attacks, January – June 2018:

69 vessels boarded
4 hijackings
23 attempted attacks
11 vessels fired upon

(Source: ICC International Maritime Bureau)

A- Excellent

A- Rating

Awarded a financial strength rating of "A- (Excellent)" by AM Best

End of Year Reserves

$37.6m

2015	$33.6m
2016	$31.8m
2017	$35.1m
2018	$37.6m

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

…annual premiums to Members have been reduced by 10% at renewal due to the Association's very strong financial position.

E André, Chairman

Chairman's Statement

I am pleased to report that 2017 was another successful year for the Association. Despite the threat to ships and their crews in many areas of the world remaining undiminished, the Association incurred no loss activity of note and I commend Members for maintaining their anti-piracy measures despite the cost pressures that this involves.

It is also pleasing to note that the freight markets finally improved in 2017 for the beleaguered dry shipping sector and there are perhaps good grounds for (cautious) optimism for 2018 and beyond. Growth in the global economy and other improving market fundamentals will hopefully lead to this optimism being well founded.

With regard to the (re)insurance markets, 2017 was a poor year in terms of hurricane related losses for many underwriters. Whilst war risks insurance is not a correlated class of business to those most affected by 2017's hurricanes, it has become apparent that 2017's loss activity has halted the reductions in rates that have been experienced for some years now. In the Association's case, this has resulted in its annual reinsurance costs having been maintained at the same level for 2018. It is therefore especially pleasing to have been able to agree that notwithstanding this, annual premiums to Members have been reduced by 10% at renewal due to the Association's very strong financial position. It is the Board's aim for the Association's rates, breadth of cover and service levels to be at class leading levels and I am confident that the Association's competitive position will only strengthen further in the future.

The UK government is currently grappling with Brexit related issues and the UK's decision to leave the EU means that the Association faces the possibility of losing its passporting rights which enable it to trade freely across the EU. The Board has considered this issue at recent Directors' meetings and a solution has been arrived at which will enable the Association to continue to trade across the EU, whatever the terms of the UK's departure may be. Members will be advised of the details of this once plans are formalised. It is expected that any costs that may be involved will be minimal and will be absorbed by the Association at no additional expense to the membership.

Finally, this is my first annual report as Chairman. My predecessor, Torben Stage, stepped down at the May 2017 Directors' meeting after many years' service. Torben was instrumental in the Association becoming a truly international mutual war risks insurer and I would like to thank him for his dedication to ensuring that the Association has been so successful in such a competitive market. This success is certainly also due to the professionalism of the Managers and their dedication to the Association maintaining its high quality of membership and standards of service.

I would also like to thank Members for their ongoing support and their contribution to the growth of membership in recent years.

E André
Chairman
29 May 2018

Directors

Directors

E. F. André (Chairman)
Suisse-Atlantique
Societe de Navigation Maritime SA, Renens

R.D. Burmeister
James Fisher Everard Limited, London

R.A.A.Harnal (Chief Financial Officer)
Thomas Miller War Risks Services Limited

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

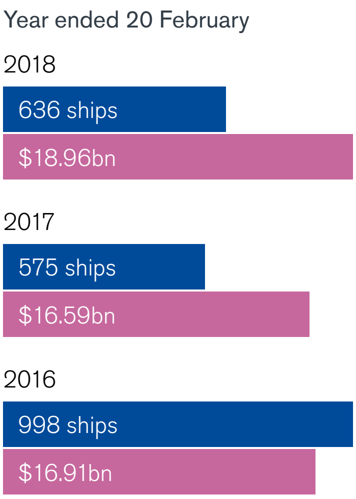
E.Verbeeck
Euronav

A.E. Ward (Chief Executive Officer)
Thomas Miller War Risks Services Limited

T.Stage Svitzer A/S, Copenhagen	Resigned 3 October 2017
A.Davies Shell International Limited, London	Resigned 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 2018.



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 and 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
There was relatively little change in the war risks environment in 2017 compared to 2016. Piracy off West Africa remains a concern for shipowners trading to that region and there were several hijackings of ships' crews for ransom in 2017. Again, efforts by Somali pirates were foiled by the ongoing use of on-board security and the use of other anti-piracy measures as per BMP 4 (Best Management Practices for Protection against Somali based piracy).

Libya and Yemen likely remain the most volatile areas in terms of the threat to shipping – in the latter country's case both due to the threat of Somali piracy offshore and the ongoing civil war.

Regardless of Members' trading environments, the Association's specific focus on war risks will continue to benefit the membership by way of competitive rates and, should an incident occur, to assist with a class leading response.

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.

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, and 10% for the 2018 Policy Year, continuing the 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 formal claims notified during the year ended 20 February 2018.

The Association welcomes feedback from Members and brokers as to the level of cover and service it provides. Feedback gives us the opportunity to respond to Members' specific needs and further improve the service provided by the Association.

Strategic Report (continued)

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the Association and the compliance team and finance department take on an important oversight role in this regard.

The Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During the year ended 20 February 2018, 89% (2017, 82%) of the reinsurance contract was placed at Lloyd's, with the balance being placed with insurance companies in the UK and overseas. The Notes to the Financial Statements include details of the Association's reinsurance programme.

The principal risks of the Association are its small capital base and concentrated membership profile. In addition, as the Association cedes almost all of its underwriting risk to third-party reinsurers, retaining only a small deductible on one part of its reinsurance programme, this has the advantage of protecting its capital base against adverse loss experience, but exposes it to counterparty credit risk and to potentially disruptive upward movement in the cost of reinsurance. This is somewhat mitigated by the Association's excellent loss record, as well as the diversity and strong credit quality of its reinsurers.

Finances

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ended 20 February 2018, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 9 October 2018.

The table compares the key financial information from the 2018 financial year with the corresponding figures from the 2017 financial year.

The fall in the Gross premium is primarily due to the reduction in rates given to members on Advance Contributions, as well as lower premiums earned on Additional Premiums as members made few voyages to Additional Premium Areas.

The fall in rates was offset by lower Reinsurance rates and lower Acquisition and administration costs.

The surplus of US$2.476m resulted in free reserves of US$37.615m which is in line with the Board's business objective of keeping free reserves between US$25m and US$40m.

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 2018 was 8.53% (2017: 12.28%)

The positive return for the year was driven primarily by the increase in the Equities and Alternative portfolio offset by a decrease in the value of its Fixed Income Portfolio.

Year ended 20 February	**2018 US$ '000**	**2017 US$ '000**
Gross premium written	2,030	2,822
Outward reinsurance premium	(918)	(1,757)
Other technical income	139	236
Acquisition and administration costs	(1,476)	(1,580)
Operating (deficit) on the technical account	(225)	(279)
Net investment income/(loss) after tax	2,701	3,584
Surplus/(deficit) for the year after tax	2,476	3,305
Reserves brought forward	35,139	31,834
Reserves carried forward	**37,615**	**35,139**

Notice of Meeting

The Annual General Meeting of the Members of The United Kingdom Mutual War Risks Association Limited will be held in the offices of the Association, 90 Fenchurch Street, London on Tuesday 9 October 2018 at 9.30am for the following purposes:-

To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2018, 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
29 May 2018

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.

AP Areas

Additional Premium ("AP") Areas
as at 20 February 2018

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 2018. The current Directors of the Association are shown on page 6 and all held office throughout the year.

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 2018, 636 ships, with a total value of US$18.96 bn, were entered in the Association. The corresponding figures for 20 February 2017 were 575 ships, with a total entered value of US$16.59 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.

Future Developments

The future development of the Association is as follows:

- The Association aims to sustain its financial position by maintaining its capital resources and free reserves in line with its risk appetite policy and to satisfy regulatory and solvency requirements as well as maintenance of the Association's financial strength rating of A- (AM Best). The Association aims to exceed its investment return benchmark by a minimum of 0.25%.
- The Association also intends to develop a more international membership as membership growth is expected to arise from non-UK domiciled Members. As such, the membership is likely to become more internationally focused than is currently the case.
- The Association's aim is to differentiate its service offering from the (commercial) market
- The Association aims to establish a distinctive identity

This will be achieved by a sound underwriting policy and its continued financial strength. The Association can confidently aim for a high rate of retention among the existing membership and growth of new and organic business year on year, developing the quality and breadth of its membership without materially eroding its financial position or overall loss ratio. The Association also aims to enhance its market share through being the leading provider of claims expertise in the war risks insurance market and being recognised for defending Members' interests fairly, consistently and robustly including its crisis response capabilities. Service is a core value to the Association's growth plan and is founded on providing dynamic and proactive advice and finding resolution to disputes/claims in a cost effective and customer focused way, giving strong industry leadership and visibility on major issues affecting its Members.

Historically, the Association has had a relatively low profile compared to its competitors amongst the broking community and target Members. Enhanced marketing efforts have been made in recent years to address this shortcoming which has resulted in the Association's profile increasing in a highly competitive marketplace.

Reserves

The main reasons the Association holds reserves are: to meet its current and anticipated statutory solvency margins; to minimise the risks of matters that are outside the scope of solvency requirements materially affecting the Association's financial results and to minimise the effect of any material change in the Association's financial results on the level of contributions paid by Members.

The Association's reserves at the year-end were US$37.6 million. This fits within the parameters of the Association's policy of holding reserves between US$25 million and US$40 million. The upper reserving limit was increased at the October 2017 Directors' Meeting, from US$35 million to US$40 million.

Directors' Report (continued)

Financial Instruments and Risk Management

Information on the use of financial instruments and its management of financial risk is disclosed in Note 2 to the financial statements.

The Association's exposures to Insurance risk and Operation risk are separately disclosed in Note 4 to the financial statements. The Association's exposure to cash flow risk is addressed under the headings of 'Credit risk', 'Liquidity risk' and 'Market risk', also disclosed in Note 4 to the financial statements.

The Association's Risk Management 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.

Directors

The Directors of the Association are shown on page 6.

Directors' Meeting

During the 2017 Policy Year, the Directors held three formal meetings: one in May 2017, one in October 2017 and one in January 2018.

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 2017, approved the year-end Report and Financial Statements, approved the annual return to the Prudential Regulatory Authority (PRA) for the year ending 20 February 2017.

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 risks, 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 2018 Policy Year; and rates and terms to Members for the 2018 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. Considering Brexit related issues.

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 (continued)

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 9 October 2018.

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.

E André
Chairman
29 May 2018

Independent Auditors' Report

Independent Auditors' Report to the Members of The United Kingdom Mutual War Risks Association Limited

Our Opinion

We have audited the financial statements of The United Kingdom Mutual War Risks Association Limited ("the Association") for the year ended 20 February 2018 which comprise the Income and Expenditure Account and Movement in Reserves, Balance Sheet, Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, The United Kingdom Mutual War Risks Association Limited financial statements:

- give a true and fair view of the state of the Association's affairs as at 20 February 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report (continued)

Area of focus	Work performed to address this risk	Results from our work performed
Additional Premiums and Reinsurance Additional Premiums The Association charges members additional premiums based on the location of members' vessels. Members notify the Association when they are in additional premium areas and the managers process and recognise additional premiums accordingly. There is a risk that there are delays in the notification and processing of additional premium which leads to the incomplete recognition of revenue. For any additional premiums charged to members, the Association incurs additional reinsurance premium. Therefore, if additional premiums are incomplete, there is a risk that additional reinsurance premium will also be incomplete.	Reviewed a sample of additional premiums recorded after the year end to ensure they were recognised in the correct period. Performed substantive testing over additional premiums and additional reinsurance premiums recorded in the year, agreeing the premium to supporting documentation. Performed analytical procedures over additional reinsurance premium, against additional premium.	**Additional premiums and reinsurance additional premiums are considered to be fairly stated.**

Independent Auditors' Report (continued)

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Based on our professional judgement, we determined materiality for the financial statements as whole to be £370,000. The principal determinant in this assessment was the Association's net assets, which we consider to be the most relevant benchmark, as this determines the availability of reserves to provide distributions or need to make supplementary calls to cover shortfalls in reserves, which are key performance measures of the Members. Our materiality represents approximately 1% of net assets.

We have agreed with the Board of Directors that we shall report to them any misstatements in excess of £18,500 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit

The audit scope is of the Association only.

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.

Effectiveness of the audit on the identification of possible fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Association. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the recognition of additional premium and reinsurance additional premium.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

Independent Auditors' Report (continued)

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 in relation to which 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.

Responsibilities of Directors
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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Matters on which we are required to address
We were appointed by the Board of Directors on 3 December 2008. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Association and we remain independent of the Association in conducting our audit.

Our audit opinion is consistent with the additional report to the Board of Directors.

Alexander Barnes
Senior Statutory Auditor

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

Accounts

Income and Expenditure account and movement in reserves for the year ended 20 February 2018

Technical Account	Notes	2018 US$ '000	2017 US$ '000
Gross premium written	5	2,030	2,822
Outward reinsurance premium	6	(918)	(1,757)
		1,112	**1,065**
Other technical income	7	139	236
Claims paid			
Gross amount		-	(11)
Reinsurers' share		-	11
Net claims paid		-	-
Change in the provision for claims			
Gross outstanding claims		-	14
Reinsurers' share		-	(14)
Change in net provision for claims			-
Claims incurred, net of reinsurance		-	-
Acquisition costs	9	(357)	(419)
Administration costs	10	(1,119)	(1,161)
Balance of the technical account		**(225)**	**(279)**

Accounts
(continued)

Income and Expenditure account and movement in reserves for the year ended 20 February 2018

Non Technical Account	**Notes**	**2018 US$ ‘000**	**2017 US$ ‘000**
Balance of the technical account		(225)	(279)
Investment and other income	11	506	408
Gains / (losses) on the realisation of investments		1,129	662
Unrealised gains / (losses) on investments		1,293	2,691
Surplus / (deficit) on ordinary activities before tax		2,703	3,482
Tax on ordinary activities	12	(227)	(177)
Surplus / (deficit) on ordinary activities after tax		2,476	3,305
Reserves brought forward		35,139	31,834
Reserves carried forward		37,615	35,139

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 37 form an integral part of these Financial Statements.

Accounts (continued)

Balance Sheet As at 20 February 2018

	Notes	2018 US$ '000	2017 US$ '000
Assets			
Other Financial Investments	13	37,828	34,968
Reinsurers share of technical provisions			
Claims outstanding		-	-
Debtors			
Debtors arising out of direct insurance operations			
Policy holders		169	473
Debtors arising out of reinsurance operations		146	240
		315	713
Cash at bank and in hand	14	307	294
Prepayments	15	54	46
Accrued Interest		71	59
		38,575	**36,080**
Reserves and Liabilities			
Reserves			
Free reserves		37,616	35,139
Technical Provisions			
Claims outstanding		-	-
Creditors			
Creditors arising out of direct insurance operations		182	281
Creditors arising out of reinsurance operations		469	462
Other creditors including taxation		221	160
		872	903
	16	87	38
Accruals		**38,575**	**36,080**

These Financial Statements were approved by the Board of Directors on 29 May 2018.
Signed on behalf of the Board of Directors:
Chairman: **E. André**
Chief Financial Officer: **R.A.A. Harnal**
The notes on pages 24 to 37 form an integral part of these Financial Statements.

Cash Flow Statement
For the year ended 20 February 2018

	Notes	2018 US$ '000	2017 US$ '000
Operating activities			
Premiums received		2,334	2,658
Reinsurance premium paid		(911)	(1,596)
Other operating income received		234	132
Claims paid		-	(11)
Reinsurance recoveries received		-	4
Acquisition costs paid		(357)	(419)
Administration costs paid		(1,224)	(1,070)
Taxation paid		(178)	(177)
Net cash provided / (used) by operating activities		(102)	(479)
Cash flows from investment activities			
Purchase of investments		(18,056)	(24,033)
Sale of investments		17,678	23,875
Interest received		225	222
Dividends on investments in equities		267	296
Net cash flow from investment activities		**114**	**360**
Net increase / (decrease) in cash and cash equivalents		13	(119)
Cash and cash equivalents at the beginning of the year		294	413
Cash and cash equivalents at the end of the year	14	**307**	**294**

The notes on pages 24 to 37 form an integral part of these Financial Statements.

1. Constitution and ownership
The Association is incorporated in England and Wales as a private Company limited by guarantee and does not have 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 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.

Notes to the Financial Statements

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. The value of the provision for 2018 is Nil (2017: Nil).

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 2018	**Level 1 US$ '000**	**Level 2 US$ '000**	**Level 3 US$ '000**	**Total US$ '000**
Assets				
Government Fixed interest securities	-	7,753	-	7,753
Fixed income corporate bonds	3,483	-	-	3,483
Equity & Alternatives	16,152	3,448		19,600
UCITS	6,992	-	-	6,992
	26,627	**11,201**	**-**	**37,828**

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	-	4,298	-	4,298
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**

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 2018, 89% 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.

Notes to the Financial Statements

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 2018	US Dollar US$ '000	Sterling US$ '000	Euro US$ '000	Total US$ '000
Fixed interest-Government	7,753	-	-	7,753
Fixed interest-Corporate	3,456	-	-	3,456
Equity & Alternatives	26,619	-	-	26,619
Debtors	302		13	315
Cash and cash equivalents	156	24	127	307
Other	125	-	-	125
	38,411	**24**	**140**	**38,575**

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**

Foreign currency sensitivity analysis
As at 20 February 2018, 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$0.008 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$0.113 million fall in the value of the Association's 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 52% of the investment portfolio (2017: 56%).

A 10% increase in equity values would be estimated to have increased the surplus before tax at the year-end by US$1.960 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.

Notes to the Financial Statements

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 2018	AAA/AA US$ '000	A US$ '000	BBB or less or not rated US$ '000	Total US$ '000
Fixed interest-Government	7,753	-	-	7,753
Fixed interest-Corporate	1,483	501	1,472	3,456
Equity & Alternatives	-	-	19,600	19,600
Debtors	-	-	315	315
UCITS	6,992	-	-	6,992
Settlement account	-	-	27	27
Cash and cash equivalents	-	-	307	307
Other	-	-	125	125
	16,228	**501**	**21,846**	**38,575**

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**

There were no past due or impaired assets at 20 February 2018 (2017: 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 2018, the Association's short term deposits (including cash and UCITs) amounted to US$7.326 million (2017: US$2.990million).

The Association's total liabilities at 20 February 2018, including claims estimates, were US$1.308 million (2017: US$1.457 million) all due within 12 months (2017: all 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's financial assets:

As at 20 February 2018	Short term assets US$ '000	Within 1 year US$ '000	2-5 years US$ '000	Over 5 years US$ '000	Total US$ '000
Fixed interest-Government	-	-	7,753	-	7,753
Fixed interest-Corporate		-	2,955	501	3,456
Equity & Alternatives	19,600	-	-	-	19,600
Debtors	315	-	-	-	315
UCITS	6,992	-	-	-	6,992
Settlement account	27	-	-	-	27
Cash and cash equivalents	307	-	-	-	307
Other	125	-	-	-	125
	27,337	**-**	**10,708**	**501**	**38,575**

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**

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 Risks 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 including all key policies has also been documented.

Accounts (continued)

Notes to the Financial Statements

4.6 Limitation of the sensitivity analysis

The sensitivity analyses in section 4.2 show 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 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$40m 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 continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the 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 Regulatory Capital Reserves were US$37.6m. This exceeded the Solvency Capital Requirement (SCR) of US$16.1m by US$21.5m.

5 Contributions and premiums

Contributions and premium have been charged as follows:

	2018 US$ '000	2017 US$ '000
Advance contributions	852	1,076
Total advance contributions	852	1,076
Additional premiums	1,178	1,746
Total net contributions and premiums	**2,030**	**2,822**

Additional Premiums are charged for cover in designated Additional Premium Areas, and, similarly, are charged to the Association by its reinsurers.

6. Reinsurance premiums

	2018 US$ '000	2017 US$ '000
Advance contributions	337	426
Total reinsurance for advance contributions	337	426
Additional premiums	581	1,331
Total reinsurance for additional premiums	581	1,331
Total reinsurance premium	**918**	**1,757**

a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is, for the 2017/2018 Policy Year, fully reinsured (except as described below) without deductible up to US$ 1 billion 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 the 2017/2018 Policy Year, a deductible of US$250,000 on each and every loss is applicable on the main reinsurance contract.

7. Other technical income

	2018 US$ '000	2017 US$ '000
Commission income	139	236

Commission income comprises commission earned on reinsurance rates for transits or 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. No claims were formally notified to the Association during the year. Although one incident was notified to the Association by year end 20 February 2018, it was determined that no insured peril had operated and the matter was closed with no payment made.

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.

	2018 US$ '000	2017 US$ '000
Brokerage on premiums	147	195
Management fee allocated to acquisition costs (note 17)	210	224
	357	**419**

Notes to the Financial Statements

10. Administration costs

	2018 US$ '000	2017 US$ '000
Managers' costs (Note 17)	840	894
Management Incentive Fee	-	-
Directors' fees	23	29
Directors' travel and meeting expenses	18	26
Directors' and Officers' insurance	10	12
Managers' travel and meeting expenses	39	45
Auditors' Remuneration	98	55
Other professional fees	64	69
Printing and Stationery	13	17
Communications – telephones and postage	4	5
Bank charges	3	4
Sundry Expenses	3	2
	1,115	1,158
Investment Management Fees	4	3
	1,119	**1,161**

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

	2018 US$ '000	2017 US$ '000
Dividends from equities	265	296
Interest on bonds and government stocks	183	199
Interest on bank deposits	56	15
	504	510
Exchange gain / (loss) arising during the year	2	(102)
	506	**408**

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

	2018	2017
US Dollar	1.0000	1.0000
Euro	0.8103	0.9416
Sterling	0.7140	0.8017
Chinese Yuan Renminbi	6.3441	6.8785
Japanese Yen	107.115	113.125
Australian Dollar	1.2659	1.3018
Norwegian Krone	7.8401	8.3310

12. Taxation

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

	2018 US$ '000	2017 US$ '000
Corporation tax at 19.11% (2017: 20%)		
Current year	227	177
For the nil balance in the adjustment in respect of prior period	-	-
Actual tax per profit and loss	**227**	**177**

The current taxation charge for the year is detailed below.

	2018 US$ '000	2017 US$ '000
Surplus / (deficit) on ordinary activities before taxation	2,691	3,482
Theoretical tax at UK Corporation Tax rate of 19.11% (2017: 20%)	514	697
Effects of:		
- Balance on the technical account not taxable	44	53
- UK dividends not taxable	(51)	(59)
- Unrealised gain on equities not taxable	(233)	(475)
- Indexation allowance on realised gains	(48)	(39)
	226	177
Adjustment in respect of prior period		-
Actual current tax charge	**226**	**177**

b) Creditors

	2018 US$ '000	2017 US$ '000
Corporation tax payable	209	160
Actual current tax charge	**209**	**160**

13. Other financial investments

	Market Value 2018 US$ '000	Market Value 2017 US$ '000	Cost 2018 US$ '000	Cost 2017 US$ '000
Government Fixed interest securities	7,753	4,289	7,911	4,343
Fixed Income Corporate bonds	3,456	8,498	3,512	8,522
Equity & Alternatives	21,709	19,486	16,081	15,284
UCITS	6,992	2,672	6,992	2,673
Settlement Account	(2,082)	23	144	227
	37,828	**34,968**	**34,640**	**31,049**

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

	2018 US$ '000	2017 US$ '000
Cash at bank and in hand	307	294

15. Prepayments

	2018 US$ '000	2017 US$ '000
Prepayments	54	46

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

16. Accruals

	2018 US$ '000	2017 US$ '000
Audit, accountancy and taxation	50	29
Accrued expenses	37	9
	87	**38**

Accrued expenses relate to expenses not yet paid.

17. Managers' remuneration

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

	2018 US$ '000	2017 US$ '000
Acquisition costs	210	224
Administration	840	894
	1,050	**1,118**

18. 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.

19. 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
N.J. Whitear

Secretary

K. Halpenny

Registered Office

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Registered Number

01901415 ENGLAND Thomas Miller & Co Ltd

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