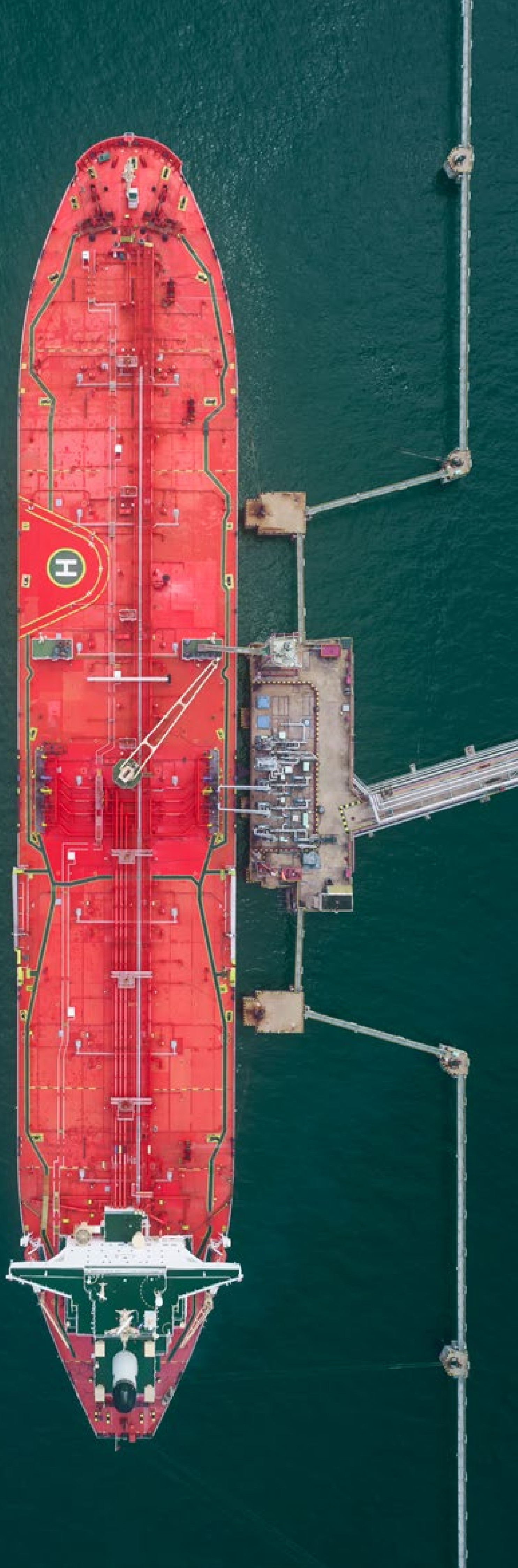
UK WAR RISKS

Annual Report and Financial Statements

For the year ended 20 February 2020



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

Contents

UK War Risks at a glance

Total Entered Value

$29.6bn

Surplus for the Year

$6.7m

Total Number of Ships Entered

935

Investment Return

13.7%

Pirate Activity

Types of violence to crews January – June 2020:

54 kidnapped
23 taken hostage
6 injured
5 assaulted
5 threatened

(Source: ICC International Maritime Bureau)

Piracy and armed robbery against ships Types of attacks, January – June 2020:

81 vessels boarded
10 attempted attacks
6 vessels fired upon
1 hijacked

A- Excellent

A- Rating

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

End of Year Reserves

$44m

2017 $35.1m
2018 $37.6m
2019 $37.2m
2020 $44m

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

2019 was a very strong year for growth with new Owners joining the Association and existing Owners adding to their fleets.

E André, Chairman

Chairman's Statement

2019 was notable as a year of increased international tensions, mainly in the Middle East. They spilled over and affected the shipping industry; with the attacks on ships off Fujairah in mid-May, followed by the attacks in the Gulf of Oman in mid-June and the detention, by Iran, of the STENA IMPERO. Fortunately, the Association was not involved in any of these incidents.

However, the increased risk led to the introduction of new Additional Premium Areas in the Arabian Gulf, followed by increased reinsurance costs which the Association was forced, regrettably, to pass on to Members.

Piracy off West Africa continued to be of concern. The International Maritime Bureau reported a decrease in the number of piracy incidents worldwide during 2019 compared to the same period in 2018, but crew kidnappings in the Gulf of Guinea reached a record level. The number of crew kidnapped in the Gulf of Guinea increased more than 50% from 78 in 2018 to 121 in 2019. Of particular concern is the worrying trend of pirates kidnapping increased numbers of crew. It remains vital that crews remain vigilant against the threat of piracy and follow the latest BMP recommendations.

2019 was a very strong year for growth with new Owners joining the Association and existing Owners adding to their fleets. After the renewal on 20 February 2020 the Association had 935 ships entered, with a Total Entered Value over US$29.6 billion.

These figures are an encouraging conclusion to the Association's five year plan for membership growth set out in 2014. Since that year the Association has almost doubled its entered fleet from US$15.85 billion, as well as increasing the average size of individual Members' entered fleets by more than 25%. Whilst the Association's heritage may have been as an insurer of British shipping, it is now a fully-fledged international maritime insurer with more than 90% of its fleet entered from outside the UK.

I am pleased to see the Association made a good surplus of US$6.726 million in 2019. Investment returns, at US$5.064 million, were pleasing and total net assets increased to US$43.911 million at year-end, such that the Association continues to be extremely well funded and allowed the Club to again pay a Discretionary Continuity Credit to Members who renewed for 2020. In addition, despite the hardening insurance market, the Association's Advance Contribution rates for 2020 were held at the same level as in 2019.

The Association's reserves remain well above both regulatory requirements and the levels required in order to maintain the Association's A- (Stable) rating from AM Best.

With some market underwriters reluctant to cover cyber risks I am also pleased that for the 2020 Policy Year, the US$50 million of annual aggregate cover across the membership will continue to be provided where the Computer Virus Exclusion Clause does not apply.

Members will be aware that the UK Parliament ratified the withdrawal agreement and the UK left the EU at 11 p.m. GMT on 31 January 2020. This began a transition period that is set to end on 31 December 2020, during which the UK and EU will negotiate their future relationship. However, as I mentioned in my statement last year, the Association has entered in to a fronting agreement that will be able to continue to service EU based Members, in the event that the UK loses its passporting rights for financial services.

COVID-19 is having a significant impact on the world economy, and its impact on the Company has been covered in detail in the Strategic Report.

Members' needs are at the heart of all that we do and the Directors and I will continue to support Members with competitive premium rates, wider cover, and superior service.

I would like to thank all the Directors and the Managers for their time and effort in ensuring that the Association's success continues.

E Andre
Chairman
26 May 2020

Directors

Directors

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

F. Everard — Resigned 24 October 2019
James Fisher Everard Limited, London

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

J. Miles — Appointed 17 January 2020
Grindrod Shipping Pte Ltd

H. W. Scheffer — Resigned 30 January 2020
Unicorn Shipping,
Division of Grindrod Shipping Pte Ltd, Singapore

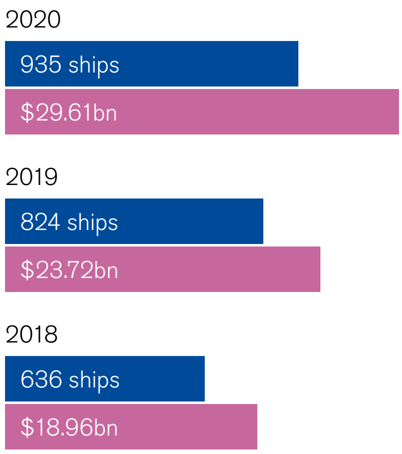
E.Verbeeck
Euronav, Belgium

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

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 2020.

Year ended 20 February, 2020



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 open to international ship owners with no connection to the UK.

The infographic on the left 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
Threats to ships and their crews remained ever present throughout 2019 in many areas of the world.

In both May and July 2019 merchant ships (not members of the Company) were attacked and significantly damaged in the Arabian Gulf region by the use of explosive limpet mines. Iranian naval forces intercepted and detained a Swedish owned tanker for two months. In response to the enhanced risk exposure, the Association instituted new Additional Premium areas in the Arabian Gulf, the national waters of Oman and the United Arab Emirates.

Whilst the Somali piracy threat has diminished largely thanks to the use of armed guards and other anti-piracy measures, Yemen presented an increased risk to ship safety and Libya remains an area of concern. Instances of kidnappings of crew in West Africa increased in 2019, fortunately none of the successful attacks involved the Association.

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 continues to maintain a strong mutual ethos for its Members. The benefits of mutuality include a greater focus on Members' needs, provision of insurance at competitive rates and more stable costs over time.

Members have also benefitted from the Association's healthy financial position (detailed in the "Finance" section of this review), enjoying very competitive rates of Advance Contributions, which were maintained at 2019 levels for the 2020 Policy Year. This is the second consecutive year that Advance Contributions have remained unchanged.

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 Additional Premium cover, both being done as matters of priority.

Service to Members includes assistance with managing incidents and guidance on claims presentation.

The Association welcomes feedback from Members and brokers as to the

Strategic Report (continued)

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.

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 2020, 84% (2019: 88%) 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, 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 also 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.

The impact of Brexit on the Association has been dealt with by the Association entering into a fronting arrangement with UK P & I NV which is based in Rotterdam. The costs of this are being absorbed by the Association, with no impact on members' premium rates.

Finances

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ended 20 February 2020, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 16 October 2020.

The table compares the key financial information from the 2020 financial year with the corresponding figures from the 2019 financial year.

Year ended 20 February	**2020 US$ '000**	**2019 US$ '000**
Gross premium written	22,640	2,254
Discretionary Continuity Credit	(1,732)	(998)
Outward reinsurance premium	(12,163)	(1,167)
Change in net provision for unearned premium	(31)	-
Other technical income	2,085	190
Acquisition and administration costs	(8,761)	(1,579)
Operating surplus on the technical account	2,038	(1,300)
Investment income after tax	4,688	870
Surplus/(deficit) for the year after tax	6,726	(430)
Reserves brought forward	37,185	37,615
Reserves carried forward	**43,911**	**37,185**

Strategic Report (continued)

The Key Performance Indicators that the Association pays particular consideration to are:

Premiums

The Association considers growth one of its key objectives. This is tracked by increases in gross premium which reflect entered values of ships as well as the number of ships. Gross premium has increased due to new members and our existing membership expanding their fleets by either acquisition or by organic growth and increased commitment to the Association. This year, premiums have increased significantly due to increased premiums being charged for voyages in Additional Premium areas.

The Association is a war risks insurer and climate change has no effects on its claims or its premiums.

This year the Directors decided to return US$1.73m by a way of Discretionary Continuity Credit to members renewing their entries, to reward their loyalty, as the Association continues to benefit from having strong capital reserves.

Reserves

Reserves are considered a key performance indicator as it is the Association's aim to maintain its free reserves for Capital Regulatory purposes between US$25m to US$40m. In addition, maintaining strong reserves is essential for the Club to maintain its A- rating from A M Best. The minimum level was set at US$25m by assuming a notional US$20m A M Best downgrade point and adding a US$5m buffer. This was done when the Solvency Capital Requirement (SCR) was not expected to go as high as the A M Best downgrade point.

The SCR as at 20 February 2020 is US$24.055m, which is higher than the AM Best downgrade point. This has resulted in the Company revising its targets based on a methodology used in the Industry. Minimum free reserves are now calculated yearly and consist of the SCR plus a 1 in 20 buffer. For the year ended 20 February 2020 this gives an amount of US$31.909m, which is made up of an SCR of US$24.055m, along with US$7.854m as the 1 in 20 year buffer.

The maximum reserves are now US$50.0m, taking into account the increased SCR.

The surplus of US$6.726m resulted in free reserves for Capital Regulatory purposes of US$46.540m, which is within the Association's target range.

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 2020 was 13.67% (2019: 2.98%).

The positive return for the year was a result of increases in all classes of assets held in the portfolio.

Strategic Report (continued)

Impact of COVID-19 (See Note 18 Post Balance Sheet Event)

The Directors have assessed the impact of COVID-19 in the following areas of their business:

Shipping industry & wider economy: A decline in the rate of economic growth or a possible depression will have a corresponding effect on maritime trade. China represents 22% of seaborne imports and the initial disruption of that economy had a significant effect on the demand for shipping. The slowdown was compounded by the Chinese New Year holiday but there are now signs that demand is recovering. The subsequent impact on Europe and the United States has yet to be felt fully, although brokers of containerised and other "finished goods" cargoes report a slowdown in freight bookings.

Prior to COVID-19 the fundamentals of the international merchant shipping industry were looking quite robust, with the possible exception of the dry bulk shipping sector. Supply of ships is relatively stable across all sectors, as impending new deliveries are less than 10% of the total world fleet. The tanker and gas markets were showing strong earnings and the container market was improving. The overall health of merchant shipping will largely depend on the macroeconomic developments of world trade and the effectiveness, or otherwise, of the various stimulus packages.

Investments: The outbreak of COVID-19 and the global response to the spread of the disease has triggered a significant decline in the pace of economic activity across the globe. The ensuing global recession is widely expected to be deeper than any experienced in the post-war period. At this point, because the eventual duration of the outbreak remains unknown, it also remains unclear exactly how severe and prolonged the recession will be.

As a result of the deterioration in the economic outlook, financial markets have become extremely volatile and this has resulted in losses on the Association's investment portfolio. The elevated level of financial market volatility is likely to persist until there is greater clarity on the likely path of the pandemic. Nevertheless, equity markets have rallied strongly in recent weeks on the back of significant monetary policy stimulus that have been announced by various central banks. Fiscal policy has also been supportive as various governments have announced plans to help mitigate the negative economic impact of the pandemic.

The asset allocation of the Association's investment portfolio remains consistent with its risk tolerance, capital and regulatory constraints, expected liabilities and credit rating requirements. While it remains responsive to shorter term market dynamics, the Association is a long term investor and its investment strategy reflects that long term approach.

Strategic Report
(continued)

Incidents / claims highly unlikely: COVID-19 is unlikely to generate a war risks claim itself. However, it has burdened already existing claims for other insurers with additional complexity and costs, as well as rendering some loss prevention efforts costly and difficult. The lockdown has obstructed the repatriation of recovered kidnap victims, and border controls have prevented the embarkation and disembarkation of armed guards on merchant ships transiting the Indian Ocean and Gulf of Aden.

Insurance broking: Contact with insurance brokers has been primarily by email and mobile phone since the commencement of lockdown. The two largest producers of business to the Association have undertaken successful video-conferences with Thomas Miller staff on ongoing Member service matters. The majority of the Association's new business and its largest Members are produced directly by foreign insurance brokers, who have already established effective communication links via phone and email, rather than face-to-face contact.

Impact on operations: The Company has outsourced its operations to Thomas Miller, who put in place a swift implementation of remote access to its systems, to enable the team to maintain ongoing service and response levels to Members from home. All members of the management team have access to video-conferencing facilities to participate in both internal and external meetings.

Illness and staff shortage: The Thomas Miller War Risks team allocated to the management of the Association is a small group of staff suggesting a potential risk that prolonged absences due to COVID-19 could reduce capability to conduct day-to-day business. However, recent absences due to non-COVID illness have been covered effectively by the existing staff, as well as support from other Isle of Man based Thomas Miller staff.

Reinsurance support: The Association's reinsurance is on a "full follow" basis enabling it to act independently, compared to competitors such as broker facilities and Managing General Agencies (MGAs). Regular and effective contact with the Association's reinsurance brokers and lead underwriter have been continuing with little difficulty during this period.

In summary, the Directors are confident that the Association is well placed to deal with the consequences of COVID-19 on its business, and are financially well reserved for any short term fall in its investments.

Strategic Report (continued)

Companies Act Section 172(1)

Section 172(1) of the Companies Act 2006 provides that a Director of a Company must act in a way that is considered to be in good faith, would most likely promote the success of the Association and benefit the Members as a whole, and in doing so have regard to various other stakeholder interests, including the Managers, regulators, brokers and reinsurers.

As a mutual insurer, the Association exists for the benefit of its Members, who are also the insureds of the Association. The key factors under section 172(1) are further considered below:

1. **The likely consequences of any long term decision**
   As further outlined above, the Directors have recently decided to enter into a fronting agreement with UK P & I NV in Rotterdam. This decision was made so that the Association can continue to write business to European Members once the UK exits the European Union, and as such the decision has been taken with the best interests of the Members in mind.

2. **The interests of the Association's employees**
   The Association has no employees. It has outsourced its day-to-day operation to Thomas Miller War Risks Services Limited, who have appointed two of their Directors to the main Board.

3. **The need to foster the Association's business relationships with suppliers, customers and others**
   In terms of the wider community impacted by the Association, as a mutual insurer, the Association exists for the benefit of its Members, who are also insureds of the Association. To this end the Association's Board aims to provide a high quality service for a competitive price. The Association has in the past years reduced premium rates and for the last two years have distributed excess funds back to Members by way of Discretionary Continuity Credits.

   The Association outsources management of the day-to-day operations to Thomas Miller War Risks Services Limited. In this regard, the Board ensures that any business

Strategic Report (continued)

conducted with Thomas Miller War Risks Services Limited is done so on appropriate terms.

The Association has strong relationships with its brokers and reinsurers and through its Managers the Association maintains contact and high level engagement with the management of its key brokers and reinsurers. The Board receive updates on the Association's key broker and reinsurer relationships.

4. **The impact of the Association's operations on the community and the environment**
   As a service oriented organisation, the Association does not consider itself to have a material impact on the environment. The Board has established a policy on climate change which is owned by the Association's Risk Officer that considers the risk of climate change associated with the Association. The Association considers the best interests of its Members as a priority. This includes returning excess funds to its Members by way of Discretionary Continuity Credits, and acting as a sounding Board for industry issues by participating and presenting in conferences on the benefits of having the appropriate war risks insurance cover.

5. **The desirability of the Association maintaining a reputation for high standards of business conduct**
   The Board has in place a conduct risk policy that applies to both the Board and the Managers. It works to ensure that the Association does the right things for its customers whilst keeping them, and the integrity of the markets in which they operate, at the heart of everything that the Association does.

6. **The need to act fairly between Members of the Association**
   The conduct risk policy as referred to above ensures that customers are treated fairly. In addition the Board has established a conflicts of interest policy which ensures that any conflict of interest around Member issues are appropriately disclosed and dealt with at Board level.

The Directors therefore consider that the requirements of Section 172(1) are appropriately addressed within the Association's policies and procedures.

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 Friday 16 October 2020 at 09.30am for the following purposes:

To receive the Report of the Annual Financial Statements for the year ended 20 February 2020, 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
26 May 2020

Directors' Report

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2020. The Directors of the Association are shown on page 6.

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 2020, 935 ships with a Total Entered Value of US$29.61bn were entered in the Association. The corresponding figures for 20 February 2019 were 824 ships, with a Total Entered Value of US$23.72bn.

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, except for claims arising in the Indian Ocean/Arabian Sea /Gulf of Aden / Gulf of Oman and Southern Red Additional Premium areas, when a deductible of US$250,000 on each and every loss is applicable.

The reinsurance contract includes the market automatic termination of cover clause, which states that "Whether or not such notice of cancellation has been given cover hereunder in respect of the risks of war etc. shall TERMINATE AUTOMATICALLY upon the outbreak of war (whether there be a declaration of war or not) between any of the following: United Kingdom, United States of America, France, the Russian Federation, the People's Republic of China;"

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, satisfying regulatory and solvency requirements as well as maintaining 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 expects its membership growth to be drawn primarily from non-UK domiciled Members, who now provide the greater part of its entered fleet.

- The Association's aim is to differentiate its service offering from the (commercial) market.

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, finding resolution to disputes/claims in a cost effective and customer focused way, and giving strong industry leadership and visibility on major issues affecting its Members.

- The Association's aim is to establish a distinctive identity

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.

Additional Premium Areas

As at 20 February 2020, 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

Oman

- Persian or Arabian Gulf and adjacent waters, including the Gulf of Oman west of Longitude 58°E
- Saudi Arabia (Gulf Coast)
- Saudi Arabia (Red Sea Coast) excluding transits

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

Transits of the above area that include entering the below defined area will attract an Additional Premium:

- Waters south of 15° N – Red Sea
- Waters south and west of 17° 33'N 055°30'E – 14°00'N 060°00'E
- Waters west of 14°00'N 060°00'E – 10°00'N 060°00'E
- Waters west of 10°00'N 060°00'E – 05°00'S 050°00'E
- Waters north of 05°00'S 050°00'E – 05°00'S 039°22'E

Transits of the area that do not include entering the area as defined above will, until further notice, be charged at Nil Additional Premium but will still need to be declared to the Managers, 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.

Further information on the Association's AP Areas can be read and downloaded from the Association's website.

Directors' Report (continued)

Reserves

The Association holds reserves to meet 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 Regulatory free reserves at the year-end were US$46.540m. This fits within the parameters of the Association's policy of holding regulatory reserves between US$31.909m and US$50.0m. The reserving limits were changed at the January 2020 Directors' Meeting, further details can be found in the Strategic Report.

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.

Directors

The Directors of the Association are shown on page 6.

Directors' Meetings

During the 2019 Policy Year, the Directors held three formal meetings: one in May 2019, one in October 2019 and one in January 2020.

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:

SFCR and Financial Statements: Received the Independent Auditors' review regarding the Annual Statutory Audit for the year ended 20 February 2020, approved the year-end Report and Financial Statements and approved the SFCR to the Prudential Regulatory Authority (PRA) for the year ending 20 February 2020.

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

Investments: Received investment reports on fund performance, received reports on custodian performance, approved portfolio benchmarks, and investment mandates.

Underwriting: Approved closure of the 2019 Policy Year, received renewal report, approved reinsurance arrangements for the 2020 Policy Year; and decided on the rates and terms to Members for the 2020 Policy Year.

Directors' Report (continued)

Compliance and Regulatory:
Approved amendments to the Articles, received reports on Senior Insurance Managers Regime (SIMR), approved the Risk Management Framework, Investment Policy and Mandate, agreed Directors' Terms of Reference and approved various other policies. The Board approved the Own Risk Solvency Assessment (ORSA) report to be sent to the regulators. They also considered Brexit related issues.

Business Development:
The Company's rolling business plans and new business opportunities and achievements were discussed and approved.

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

Any additional requirements of the Directors' Report have been disclosed in the Strategic Report.

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 for taking reasonable steps to prevent and detect 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 Andre
Chairman
26 May 2020

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 2020 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 2020 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the 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.

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 premium 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. As shown in note 5, $21.5m of additional premium has been recognised in the financial statements (2019: $1.4m). As shown note 6, $11.8m of additional reinsurance premium (2019: $0.9m) have been recognised in the financial statements.	▪ Performed substantive testing over a sample of additional premiums recorded after the year end to ensure they were recognised in the correct period, agreeing the additional premium period to debit notes. ▪ Performed substantive testing over additional premiums and additional reinsurance premiums recorded in the year, agreeing the premium to the debit notes. ▪ Performed analytical procedures over additional premium recognised on a member basis, with analytical review of the reinsurance additional premiums recognised in relation to additional premium.	Additional premiums and reinsurance additional premiums were 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 $998,000 (2019: $740,000). The principal determinant in this assessment was the Association's gross assets, which we consider to be the most relevant benchmark, as this determines the Association's financial strength 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 2% of gross assets (2019: 2% of net assets). A lower level of materiality has been used at 1% of net assets (2019: 1% of net assets), $439,000 (2019:$370,000), for specified areas of the financial statements (investments, management fees and other expenses) that directly affect the profit or net assets of the entity. Net assets has been used as the key determinant to the solvency of the business.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at 70% of each materiality level set out above.

We have agreed with the Board of Directors that we shall report to them any misstatements in excess of $19,900 (2019:$37,000) 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

We undertook a full scope audit of the company. Our approach to the audit was risk based, with our audit work being tailored to ensure that sufficient assurance was gained for us to be able to give an opinion on the financial statements as a whole. Specific audit procedures were carried out on all risk areas identified, including the key audit matters detailed above, and on all material balances and classes of transactions. The company audit team performed all aspects of the audit. The audit scope is of the Association only.

Capability of the audit to detect irregularities including 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.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls and the risk of fraud in revenue recognition, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

We identified areas of laws and regulations that could reasonably be expected to have a material impact on the financial statements from our sector experience and through discussion with

Independent Auditors' Report (continued)

the Directors and other management, as required by the auditing standards. We remained alert to any indications of non-compliance throughout our audit. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Other information

The Directors are responsible for the other information, which 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.

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 18, 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.

Independent Auditors' Report (continued)

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.

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

Matters on which we are required to address

Moore Stephens LLP were appointed as initial auditors by the Directors on 3 December 2008, and following the recommendation of the Directors, we were appointed to audit the financial statements for the year ending 20 February 2009 and subsequent financial periods. On 1 February 2019 Moore Stephens LLP merged its business with BDO LLP. The period of total uninterrupted engagement is 12 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.

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.

Tom Reed
Senior Statutory Auditor
30 June 2020

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

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Accounts

Income and Expenditure account and movement in reserves for the year ended 20 February 2020

Technical Account	Notes	2020 US$ '000	2019 US$ '000
Gross premium written	5	22,640	2,254
Discretionary Continuity Credit		(1,732)	(998)
		20,908	**1,256**
Outward reinsurance premium	6	(12,163)	(1,167)
		8,745	89
Change in gross provision for unearned premium		(3,929)	-
Change in deferred acquisition costs for unearned premium		1,368	-
Change in provision for unearned premium, reinsurers' share		2,530	-
Change in net provision for unearned premium		(31)	-
Earned premium net of reinsurance		8,714	89
Other technical income	7	2,085	190
Acquisition costs	8	(7,496)	(395)
Administration costs	9	(1,265)	(1,184)
Balance of the technical account		**2,038**	**(1,300)**

Accounts
(continued)

Income and Expenditure account and movement in reserves for the year ended 20 February 2020

Non Technical Account	**Notes**	**2020 US$ '000**	**2019 US$ '000**
Balance of the technical account		2,038	(1,300)
Investment and other income	10	699	586
Gains / (losses) on the realisation of investments		811	798
Unrealised gains / (losses) on investments		3,554	(282)
Surplus / (deficit) on ordinary activities before tax		7,102	(198)
Tax on ordinary activities	11	(376)	(232)
Surplus / (deficit) on ordinary activities after tax		6,726	(430)
Reserves brought forward		37,185	37,615
Reserves carried forward		43,911	37,185

All activities represent continuing activities. There is no other comprehensive income.
The notes on pages 28 to 41 form an integral part of these Financial Statements.

Accounts (continued)

Balance Sheet
As at 20 February 2020

	Notes	2020 US$ '000	2019 US$ '000
Assets			
Other Financial Investments	12	42,537	37,797
Reinsurance share of unearned premium		2,530	-
Deferred acquisition cost for unearned premium		1,368	-
Debtors			
Debtors arising out of direct insurance operations			
Policy holders		3,657	259
Debtors arising out of reinsurance operations		2,270	248
		5,927	507
Cash at bank and in hand		1,490	1,053
Prepayments	13	7	52
Accrued Interest		41	101
		53,900	**39,510**
Reserves and Liabilities			
Reserves		43,911	37,185
Unearned premium		3,929	-
Creditors			
Creditors arising out of direct insurance operations		164	247
Creditors arising out of reinsurance operations		2,798	527
Other creditors including taxation	14	1,266	488
		4,228	1,262
Accruals	14	100	65
Discretionary Continuity Credit		1,732	998
		53,900	**39,510**

These Financial Statements were approved by the Board of Directors on 26 May 2020.
Signed on behalf of the Board of Directors:
Chairman: **E. André**
Chief Financial Officer: **R.A.A. Harnal**
The notes on pages 28 to 41 form an integral part of these Financial Statements.

Accounts
(continued)

Cash Flow Statement
For the year ended 20 February 2020

	Notes	2020 US$ '000	2019 US$ '000
Operating activities			
Premiums received		12,216	2,140
Reinsurance premium paid		(9,893)	(1,110)
Other operating income received		1,642	225
Acquisition costs paid		(202)	(395)
Administration costs paid		(125)	(895)
Discretionary Continuity Credit		(998)	-
Taxation paid		(232)	(209)
Net cash provided / (used) by operating activities		2,408	(244)
Cash flows from investment activities			
Purchase of investments		(19,801)	(14,859)
Sale of investments		17,072	15,294
Interest received		28	(92)
Dividends on investments in equities		730	647
Net cash flow from investment activities		**(1,971)**	**990**
Net increase / (decrease) in cash and cash equivalents		437	746
Cash and cash equivalents at the beginning of the year		1,053	307
Cash and cash equivalents at the end of the year		**1,490**	**1,053**

The notes on pages 28 to 41 form an integral part of these Financial Statements.

Accounts
Notes to the 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 42.

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.

The nature of the Association's operation and principal activities have been outlined in the Strategic and Directors' Report sections of the financial statements.

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.

The Financial Statements have been prepared on the going concern basis (See note 18 Post Balance Sheet Event). The Directors consider it appropriate to adopt the going concern basis of accounting in the preparation of these Financial Statements, and are not aware of any material uncertainties to the Association's ability to continue to do so for at least 12 months from the date of authorisation of these Financial Statements.

2.2 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. Premiums for a period of cover after the year end are treated as unearned.

2.3 Discretionary Continuity Credit
Discretionary Continuity Credit is a mechanism that the Directors have as to return any surplus it deems fit back to its members. This power is given in the Articles of Association. Discretionary Continuity Premiums are recognised in the financial statements on the date they are approved by the Directors.

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.

Income is received from the reinsurers as commission for placing business with them, and is recognised in line with the reinsurer premium to which it relates.

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 and Chapter 12 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 or 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 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.

2.10 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.

2.11 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.

2.12 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 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 are made by the Association.

3.1 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 2020	**Level 1 US$ '000**	**Level 2 US$ '000**	**Level 3 US$ '000**	**Total US$ '000**
Assets				
Government Fixed interest securities	-	6,813	-	6,813
Fixed income corporate bonds	3,811	-	-	3,811
Equity & Alternatives	23,630	40		23,670
UCITS	7,266	-	-	7,266
Settlement Account	977	-	-	977
	35,684	**6,853**	**-**	**42,537**

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 2019	**Level 1 US$ '000**	**Level 2 US$ '000**	**Level 3 US$ '000**	**Total US$ '000**
Assets				
Government Fixed interest securities	-	6,823	-	6,823
Fixed income corporate bonds	6,736	-	-	6,736
Equity & Alternatives	17,303	3,570		20,873
UCITS	3,053	-	-	3,053
Settlement Account	312	-	-	312
	27,404	**10,393**	**-**	**37,797**

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 2020, 84% 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.

Notes to the Financial Statements

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 2020	US Dollar US$ '000	Sterling US$ '000	Euro US$ '000	Total US$ '000
Fixed interest-Government	6,813	-	-	6,813
Fixed interest-Corporate	3,811	-	-	3,811
Equity & Alternatives	23,670	-	-	23,670
UCITS	7,266	-	-	7,266
Settlement account	977	-	-	977
Reinsurance share of unearned premium	2,530	-	-	2,530
Deferred acquisition cost of unearned premium	1,368	-	-	1,368
Debtors	5,905	-	22	5,927
Cash and cash equivalents	495	963	32	1,490
Other	48	-	-	48
	52,883	**963**	**54**	**53,900**

As at 20 February 2019	US Dollar US$ '000	Sterling US$ '000	Euro US$ '000	Total US$ '000
Fixed interest-Government	6,823	-	-	6,823
Fixed interest-Corporate	6,736	-	-	6,736
Equity & Alternatives	20,873	-	-	20,873
UCITS	3,053	-	-	3,053
Settlement account	312	-	-	312
Debtors	481	-	26	507
Cash and cash equivalents	281	592	180	1,053
Other	153	-	-	153
	38,712	**592**	**206**	**39,510**

Foreign currency sensitivity analysis
As at 20 February 2020, 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$0.051m (2019: US$0.045m).

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, would result in a fall of US$0.106m in the value of the Association's investments (2019: US$0.135m).

Equity price risk
The Association is exposed to price risk through its holding of equities and alternatives as financial investments at fair value through profit and loss. At the year end the holding in equity and alternative instruments amounted to 56% of the investment portfolio (2019: 55%)

A 10% increase in equity values would be estimated to have increased the surplus before tax at the year-end by US$2.366m (2019: US$2.087m). 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

Counterparty 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 to which the fund manager has to adhere to. All fixed interest and floating rate 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 2020	AAA/AA US$ '000	A US$ '000	BBB or less or not rated US$ '000	Total US$ '000
Fixed interest-Government	6,813	-	-	6,813
Fixed interest-Corporate	3,298	-	513	3,811
Equity & Alternatives	-	-	23,670	23,670
UCITS	7,266	-	-	7,266
Settlement account	977	-	-	977
Reinsurance share of unearned premium	-		2,530	2,530
Deferred acquisition cost of unearned premium	-	-	1,368	1,368
Debtors	-	-	5,927	5,927
Cash and cash equivalents	-	-	1,490	1,490
Other	-	-	48	48
	18,354	**-**	**35,546**	**53,900**

As at 20 February 2019	AAA/AA US$ '000	A US$ '000	BBB or less or not rated US$ '000	Total US$ '000
Fixed interest-Government	6,823	-	-	6,823
Fixed interest-Corporate	496	4,256	1,987	6,736
Equity & Alternatives	-	-	20,873	20,873
UCITS	3,053	-	-	3,053
Settlement account	312	-	-	312
Debtors	-	-	507	507
Cash and cash equivalents	-	1,053	-	1,053
Other	-	-	153	153
	10,684	**5,306**	**23,520**	**39,510**

There were no past due or impaired assets at 20 February 2020 (2019: 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 2020, the Association's short term deposits (including cash and UCITs) amounted to US$9.733m (2019: US$4.419m).

The Association's total liabilities at 20 February 2020 were US$6.060m (2019: US$2.2335m), all due within 12 months (2019: 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 2020	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	-	-	6,813	-	6,813
Fixed interest-Corporate	-	-	3,811	-	3,811
Equity & Alternatives	23,670	-	-	-	23,670
UCITS	7,266	-	-	-	7,266
Settlement account	977	-	-	-	977
Reinsurance share of unearned premium	2,530				2,530
Deferred acquisition cost of unearned premium	1,368	-	-	-	1,368
Debtors	5,927	-	-	-	5,927
Cash and cash equivalents	1,490	-	-	-	1,490
Other	48	-	-	-	48
	43,276	**-**	**10,624**	**-**	**53,900**

As at 20 February 2019	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	-	-	6,823	-	6,823
Fixed interest-Corporate	-	-	6,236	500	6,736
Equity & Alternatives	20,873	-	-	-	20,873
UCITS	3,053	-	-	-	3,053
Settlement account	312	-	-	-	312
Debtors	507		-		507
Cash and cash equivalents	1,053	-	-	-	1,053
Other	153	-	-	-	153
	25,951	**-**	**13,059**	**500**	**39,510**

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.

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's objective is to maintain its total capital resources (own funds) in line with its risk appetite statement and with its regulatory requirement.

The minimum free reserves it will hold will be its Solvency Capital Requirement (SCR) plus a 1 in 20 buffer, calculated annually at the same time its Own Risk Solvency Assessment (ORSA) is calculated. For the year ending 20 February 2020 this amounts to US$31.909m, which is made up of the SCR of US$24.055m and US$7.854m as the 1 in 20 year buffer.

The maximum reserves are US$50m.

The Association's objective to have such limits is to ensure that it is able to continue as a going concern, meet its regulatory requirements and maintain its 'A-' rating with A.M. BEST.

At the year end the Association's Regulatory Capital Reserves were US$46.540m (2019: US$37.403m). This exceeded the Solvency Capital Requirement (SCR) of US$24.055m by US$22.485m.

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.

5. Contributions and premiums

Contributions and premium have been charged as follows:

	2020 US$ '000	2019 US$ '000
Advance contributions	1,141	885
Additional premiums	21,499	1,369
Total net contributions and premiums	**22,640**	**2,254**

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

6. Reinsurance premiums

	2020 US$ '000	2019 US$ '000
Advance contributions	341	289
Total reinsurance for advance contributions	341	289
Additional premiums	11,822	878
Total reinsurance for additional premiums	11,822	878
Total reinsurance premium	**12,163**	**1,167**

a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is, for the 2019 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 Special Drawing Rights ("SDR")) are determined by reference to the rates of exchange published in the Financial Times on 20 February 2020.

   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 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 Sea Additional Premium areas in 2018, a deductible of US$250,000 on each and every loss is applicable on the main reinsurance contract.

7. Other technical income

	2020 US$ '000	2019 US$ '000
Commission income	2,085	190

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. Acquisition costs

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

	2020 US$ '000	2019 US$ '000
Brokerage on premiums	7,252	157
Management fee allocated to acquisition costs (note 15)	244	238
	7,496	**395**

Accounts
(continued)

Notes to the Financial Statements

9. Administration costs

	2020 US$ '000	2019 US$ '000
Managers' costs (Note 15)	976	951
Directors' fees	21	21
Directors' travel and meeting expenses	15	16
Directors' and Officers' insurance	12	12
Managers' travel and meeting expenses	24	38
Auditors' Remuneration	74	53
Other professional fees	99	66
Printing and Stationery	11	12
Communications – telephones and postage	3	3
Bank charges	4	4
Sundry Expenses	21	3
	1,260	1,179
Investment Management Fees	5	5
	1,265	1,184

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.

10. Investments and other income

	2020 US$ '000	2019 US$ '000
Dividends from equities	282	271
Interest on bonds and government stocks	284	237
Interest on bank deposits	105	79
	671	587
Exchange gain / (loss) arising during the year	28	(1)
	699	**586**

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

	2020	2019
US Dollar	1.0000	1.0000
Euro	0.9257	0.8811
Sterling	0.7765	0.7655
Chinese Yuan Renminbi	7.0155	6.7244
Japanese Yen	112.094	110.765
Australian Dollar	1.5089	1.3955
Norwegian Krone	9.3062	8.5958

11. Taxation

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

	2020 US$ '000	2019 US$ '000
Corporation tax at 19% (2019: 19%)		
Current year	376	232
Actual tax per profit and loss	**376**	**232**

Accounts (continued)

Notes to the Financial Statements

The current taxation charge for the year is detailed below.

	2020 US$ '000	2019 US$ '000
Surplus / (deficit) on ordinary activities before taxation	7,102	(198)
Theoretical tax at UK Corporation Tax rate of 19% (2019: 19%)	1,349	(38)
Effects of:		
- Balance on the technical account not taxable	(388)	249
- UK dividends not taxable	(61)	(59)
- Unrealised gain on equities not taxable	(512)	109
- Indexation allowance on realised gains	(22)	(35)
Adjustment to tax charge in respect of prior periods	10	6
	376	**232**

12. Other financial investments

	Market Value 2020 US$ '000	Market Value 2019 US$ '000	Cost 2020 US$ '000	Cost 2019 US$ '000
Government Fixed interest securities	6,813	6,823	6,705	6,849
Fixed Income Corporate bonds	3,811	6,736	3,747	6,744
Equity & Alternatives	23,669	20,873	15,155	15,708
UCITS	8,244	3,365	9,284	3,188
	42,537	**37,797**	**34,891**	**32,489**

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.

13. Prepayments

	2020 US$ '000	2019 US$ '000
Prepayments	7	52

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

14. Other Creditors including taxation and accruals

	2020 US$ '000	2019 US$ '000
Cash settlement Investment portfolio	890	256
Taxation	376	232
	1,266	488
Audit, accountancy and taxation	57	57
Accrued expenses	43	8
	100	**65**

Accrued expenses relate to expenses not yet paid.

15. Managers' remuneration

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

	2020 US$ '000	2019 US$ '000
Acquisition costs	244	238
Administration	976	951
	1,220	**1,189**

16. Related party disclosures

The Association has no share capital and is controlled by the Members, who are also the insureds. The subsequent insurance transactions are consequently deemed to be between related parties but these are the only transactions between the Association and the Members.

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.

17. Location and nature of business

All operations are direct war risks insurance written within the United Kingdom. All business is classified as marine, aviation and transport.

18. Post Balance Sheet Events

As further discussed in the Strategic Report, the emergence of COVID-19 may have a potential impact on the Association. The impact of COVID-19 is however not expected to materially affect the results reported in these financial statements given that the Association's insurance policies cover risks up to 20 February, 2020. As a result the emergence of COVID-19 is considered to be a non-adjusting event after the end of the reporting period, given that the event is indicative of conditions that arose after the end of the reporting period.

The Association has provided a detailed explanation of the impact of COVID-19 on its operation in the Strategic Report.

As noted in the Directors' Report, it continues to be appropriate to prepare the Association's financial statements on a going concern basis.

Managers and Officers

Managers

Thomas Miller War Risks Services Limited

Directors Of Thomas Miller War Risks Services Limited

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R.A.A. Harnal
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