UK WAR RISKS

Annual Report and Financial Statements

For the year ended 20 February 2021

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

Contents

UK War Risks at a glance

Total Entered Value

$31.2bn

Surplus for the Year

$4.5m

Total Number of Ships Entered

803

Investment Return

9.1%

Pirate Activity

Types of violence to crews January – June 2021:

50 kidnapped
3 taken hostage
3 threatened
2 assaulted
1 injured
1 killed

Piracy and armed robbery against ships Types of attacks, January – June 2021:

61 vessels boarded
4 attempted attacks
2 vessels fired upon
1 hijacked

(Source: ICC International Maritime Bureau)

A- Excellent

A- Rating

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

End of Year Reserves

$48m

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

While the impact on Covid-19 had a significant impact on the world economy, fortunately the impact on the Association has been very limited.

E André, Chairman

Chairman's Statement

The Association had a good year with a surplus of US$4.513m and reserves of US$48.424m at the year-end. In a difficult and challenging market, the investment portfolio produced a return of 9.13% equating to US$3.806m. The Association continues to be extremely well capitalised which has allowed the Association once again to pay a Discretionary Continuity Credit of US$1.996m to Members who renewed for 2021; the largest ever.

In addition, despite the hardening insurance market, the Association's Advance Contribution rates for 2021 remain the same as in 2020. This is the third year where the Association has kept the rates unchanged.

Any report has to mention Covid-19, which has been a seismic event without parallel in modern times. Estimates of the losses due to the pandemic are in excess of US$100bn, with Lloyd's share estimated in excess of US$8bn. The marine market, with the exception of cruise P&I risks, has been relatively untouched with marine war largely profitable with rates in the Persian Gulf remaining at the same levels as they were at the end of 2019. While the impact on Covid-19 had a significant impact on the world economy, fortunately the impact on the Association has been very limited.

Tensions in the Middle East remained high in 2020 with the US drone strike on an Iranian Revolutionary Guard General, the detention of several foreign flagged ships by the Iranian military and a number of attacks on merchant shipping in Yemeni waters. As a consequence, AP rates in the Persian Gulf have remained at their current high levels though the Association was able to secure a 10% reduction in reinsurance rates in July 2020; a saving which was passed on to the Membership.

West African piracy remains of very great concern. The International Maritime Bureau reported a record 130 crew kidnapped in the Gulf of Guinea region in 22 separate attacks in 2020. Moreover, incidents are occurring further away from shore than previously. It remains vital that crews are ever vigilant against the threat of piracy and follow the latest BMP recommendations when in the region.

2020 has turned out to be a very stable year in respect of member retention. Ship numbers are down slightly as a result of the decision not to renew some smaller, low value fleets. The departure of these ships was offset by new Members and the growth of existing fleets over the year leading to an increase in the Association's Total Entered Value (TEV) by the year-end. After renewal on 20 February 2021, the Association had 803 ships entered with a TEV of over US$ 31bn.

The Association's reserves remain well above 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 pleased that for the 2021 Policy Year the US$50m of annual aggregate cover across the membership will continue to be provided where the Computer Virus Exclusion Clause does not apply.

Following the end of the Transition Period on 31 December 2020, UK insurers lost their pass porting rights into the EEA. The Association has therefore started issuing policies for its EEA Members from 1 January 2021 through its fronting arrangement with UK P&I Club N.V. in Rotterdam. This arrangement has enabled the Association to continue to write its European business after Brexit.

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 particularly the Managers over the past 12 months during the pandemic, for their time and effort in ensuring the Association's success continues.

E Andre
Chairman
26 May 2021

Directors

Directors

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

A. Wingfield Digby — Appointed 15 December 2020
Giles W Pritchard-Gordon & Co ltd

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

J. Miles
Grindrod Shipping Pte Ltd

N.H.H. Smith — Appointed 30 November 2020
Independent Non- Executive Director

E. Verbeeck
Euronav, Belgium

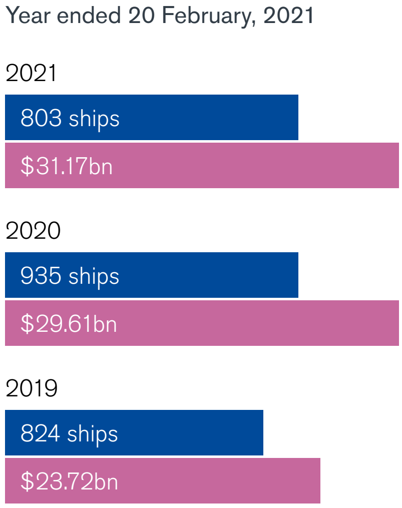
A.E. Ward (Chief Executive Officer)
Thomas Miller War Risks Services Limited

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 2021.

International

In 1913, when the Association was founded, the membership 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 2020 in many areas of the world.

Whilst the Somali piracy threat has diminished largely thanks to the use of armed guards and other anti-piracy measures, other areas of concern are the Gulf Of Guinea where there has been a large increase in pirate attacks, resulting in an amended trading war listed area in the region, and the Red Sea where attacks have also increased

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. Fortunately no successful attacks involved the Association.

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 cost 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 2020 levels for the 2021 Policy Year. This is the third year 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 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.

Strategic Report (continued)

The Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During the year ended 20 February 2021, 84% (2020: 84%) 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.

The impact of Brexit on the Association has been dealt with by the Association entering into a fronting arrangement with UK P & I Club N.V which is based in Rotterdam. The costs of which be 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 2021, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 12 October 2021.

The table compares the key financial information from the 2021 financial year with the corresponding figures from the 2020 financial year.

Year ended 20 February	**2021 US$ '000**	**2020 US$ '000**
Gross premium written	20,245	22,640
Discretionary Continuity Credit	(1,996)	(1,732)
Outward reinsurance premium	(9,984)	(12,163)
Change in net provision for unearned premium	(51)	(31)
Other technical income	1,543	2,085
Acquisition and administration costs	(8,629)	(8,761)
Operating surplus on the technical account	1,128	2,038
Investment income after tax	3,385	4,688
Surplus/(deficit) for the year after tax	4,513	6,726
Reserves brought forward	43,911	37,185
Reserves carried forward	**48,424**	**43,911**

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 and is tracked by increases in gross premium which reflect entered values of ships as well as the number of ships. Gross premium has reduced slightly due to the decrease in voyages made to Additional Premium areas but offset by increased ship values. This year has been marked by stability of membership both in terms of number of ships and total entered value.

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

This year the Directors decided to return US$1.99m 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 aim to maintain its free reserves within target bands. The minimum target is to have reserves based on Solvency Capital Requirement (SCR) plus a 1 in 20 buffer calculated yearly. For the year ended 20 February 2021 the minimum capital reserve is US$35.742m this is made up of SCR of US$25.461m and US$10.282m as the 1 in 20 buffer.

The surplus of US$4.513m resulted in free reserves of US$48.424m.

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 2021 was 9.13% (2020: 13.67%).

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

Impact of COVID-19

The Directors have been monitoring the on-going Covid 19 pandemic since 20 February 2020 and have determined that it has not had a material effect on its business.

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**
   The decision taken by the Directors to enter into a fronting agreement with UK P & I NV in Rotterdam was made so that the Association could continue to write business to European Members from 1 January 2021 when the Transition Period ended. This decision was taken to maintain business earnings which are in the best interests of the Members.

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 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.

Strategic Report
(continued)

4. The impact of the Association's operations on the community and the environment

As a service based organisation, the Association does not have a material impact on the environment. The Board has established a policy on climate change that is owned by the Association's Risk Officer which considers the risk of climate change associated with the Association.

The Directors have determined that the Association is a low energy user, using less than 40,000 kwh per year. As noted earlier, the Association's core management and business activities are outsourced to Thomas Miller.

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 a conduct risk policy that applies to both the Board and the Managers and ensures 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 United Kingdom Mutual War Risks Association Limited will be held in the offices of the Association, 90 Fenchurch Street, London on Tuesday 12 October 2021 at 09.30am for the following purposes:

To receive the Report of the Annual Financial Statements for the year ended 20 February 2021, 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 2021

Directors' Report

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2021. 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 2021, 803 ships, with a total value of US$31.175bn were entered in the Association.

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 and to satisfy regulatory and solvency requirements as well as maintenance of the Association's financial strength rating of A- (AM Best).

- 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, 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 2021, 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 western side from the coast of Togo 6° 06'45" N, 1° degree 12'E south to High seas point 0° 40'S, 3° 00' E and then east to Cape Lopez Peninsula , Gabon 0° 40'S, 8° 42' E.

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

Syria

United Arab Emirates

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.

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.

The named countries shall include their coastal waters up to 12 nautical miles offshore, unless specifically varied above. The ports, places, countries, zones and areas listed shall include all harbours, offshore installations and terminals unless otherwise provided.

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

Directors' Report (continued)

Reserves

The main reasons the Association holds reserves are: 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 free reserves at the year-end were US$48.424m. It is the Association aim to maintain minimum free reserves based on its on Solvency Capital Requirement (SCR) plus a 1 in 20 buffer calculated yearly. For the year ended 20 February 2021 the minimum capital reserve is US$35.743m which is made up of SCR of US$25.461m and US$10.282m as the 1 in 20 buffer.

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 2020 Policy Year, the Directors held three formal meetings: one in May 2020 one in October 2020 and one in January 2021.

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, approved the SFCR to the Prudential Regulatory Authority (PRA) for the year ended 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 2021 Policy Year; and rates and terms to Members for the 2021 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 Association policies. Approved the Own Risk Solvency Assessment (ORSA) report to be sent to the regulators. Considering 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 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 Andre
Chairman
26 May 2021

Independent Auditors' Report

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

Opinion on the financial statements

In our opinion, the Association's financial statements:

- give a true and fair view of the state of the Association's affairs as at 20 February 2021 and of the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of United Kingdom Mutual War Risks Association Limited ("the Association") for the year ended 20 February 2021 which comprise the income and expenditure account and movement in reserves, the balance sheet, the statement of cash flows, 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the Board of Directors, we were appointed to audit the financial statements for the year ended 20 February 2021 and subsequent financial periods. The period of uninterrupted engagement including retenders and reappointments is 13 years, covering the years ended 20 February 2009 to 20 February 2021. We remain 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. The non-audit services prohibited by that standard were not provided to the Association.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Association's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the Association's current plans and budget forecasts, challenging growth assertions and checking that movements were in line with justifiable assumptions and movements;
- Checked the basis of solvency projections for the next 12 months, considering an appropriate mechanism for calculating solvency had been applied; and
- Challenge and discussion around the latest Own risk and Solvency Assessment provided by the Association. In addition we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged management as to the future assumptions embedded within the model. We have also checked that the modelling used for solvency is in line with industry standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or

Independent Auditors' Report (continued)

conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Key audit matters	2021	2020
Additional Premiums and Reinsurance	✓	✓
Additional Premiums		

Materiality
Financial Statements as a whole: $949,000 (2020: $998,000) based on 1.96% of net assets (2020: 1.85% gross assets).

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Association and its environment, including the Association's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

All audit work was performed by the audit engagement team.

Key audit matters (see table 1 opposite, page 19)

Key audit matters are those matters that, in our professional judgement, 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) that 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. This matter 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 this matter.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows - see table 2 opposite, on page 19.

The principal determinant in this assessment was the Association's net assets, which we consider to be the most relevant benchmark for users of the financial statements, as it reflects a key measure of the performance for the members and is used to assess the level of free reserves and in determining solvency.

Reporting threshold

We agreed with the Board of Directors that we would report to them any misstatements in excess of $47,000 (2020: $19,900) that we identified through the course of our audit, together with any qualitative matters that warrant reporting.

Independent Auditors' Report (continued)

Table 1	Area of focus	Procedures performed to address this risk
Additional Premiums and Reinsurance Additional Premiums See note 5 and accounting policy in note 2.2	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 manager's 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, as shown in note 5. We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Association's results.	We performed the following procedures: ▪ On a sample basis, tested additional premiums recorded after the year end to check they were recognised in the correct period, agreeing the additional premium period to debit notes. ▪ On a sample basis, tested additional premiums and additional reinsurance premiums recorded in the year, agreeing the premium to the debit notes. ▪ Performed an analysis on the relationship between additional premiums recognised on a member basis, comparing with the reinsurance additional premiums recognised in relation to additional premium. Key observations: ▪ As a result of the procedures performed, we did not identify any matters to suggest that the additional premiums and reinsurance premiums have not been recognised appropriately.

Table 2	Association financial statements	
	2021 **$000's**	**2020** **$000's**
Materiality	949	998
Basis for determining materiality	1.96% of Net assets	1.85% of Gross assets
Performance materiality	474.5	698.6
Basis for determining performance materiality	50% of Materiality	70% of Materiality
Rationale for the benchmarks applied	We have reviewed our approach of setting materiality, and consider Net Assets to be the most appropriate measure for a mutual insurer. In prior years Gross Assets was used as the basis for materiality, however following an increase in the level of business written and the inclusion of an unearned premium reserve we now consider that Net Assets is a more appropriate measure for a business of this type. We note the impact of adopting this basis of materiality in the current year is to reduce the level of materiality to $949k. As part of our review, we have also considered the level of performance materiality. Rather than setting a specific materiality for areas not impacted by the large reinsurance agreements in place, we consider it to be more appropriate to set performance materiality at a lower level to ensure all areas not affected by the reinsurance are adequately captured within our testing.	
Specific materiality (Investments, management fees & expenses)	N/A	439
Basis for determining Specific materiality	N/A	1% Net assets

Independent Auditors' Report (continued)

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

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.

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.

Matters on which we are required to report by exception

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 by the Association, or returns adequate for our audit have not been received from branches not visited by us; or
- the Association's 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 Statement of Directors' Responsibilities set out on page 16 of 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.

Independent Auditors' Report (continued)

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- obtaining an understanding of the legal and regulatory framework applicable to the Association's operations. We considered the significant laws and regulations to be the applicable accounting standards, Prudential Regulatory Authority ('PRA'), Financial Conduct Authority ('FCA'), Company Law and the Bribery Act 2010;
- agreement of the financial statement disclosures to underlying supporting documentation;
- assessed the susceptibility of the financial statement to material misstatement including fraud and identified the fraud risk areas to be the valuations (Refer to the key audit matters section above) and management override of controls.
- In response to the risk of management override of controls, assessed the appropriateness of journal entries which met a specific defined criteria by agreeing to supporting documentation.
- enquiries of management and those charged with governance;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA); and
- review of the Association's Own Risk and Solvency Assessment (ORSA).

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it. A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Thomas Reed
Senior Statutory Auditor
For and on behalf of BDO LLP,
Statutory Auditor
London, UK
10 June 2021

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

Accounts

Income and Expenditure account and movement in reserves for the year ended 20 February 2021

Technical Account	Notes	2021 US$ '000	2020 US$ '000
Gross premium written	5	20,245	22,640
Discretionary Continuity Credit		(1,996)	(1,732)
		18,249	**20,908**
Outward reinsurance premium	6	(9,984)	(12,163)
		8,265	8,745
Change in gross provision for unearned premium	5	1,086	(3,929)
Change in deferred acquisition costs for unearned premium	8	(463)	1,368
Change in provision for unearned premium, reinsurers' share		(674)	2,530
Change in net provision for unearned premium		(51)	(31)
Earned premium net of reinsurance		8,214	8,714
Other technical income	7	1,543	2,085
Acquisition costs	8	(7,308)	(7,496)
Administration costs	9	(1,321)	(1,265)
Balance of the technical account		**1,128**	**2,038**

Accounts (continued)

Income and Expenditure account and movement in reserves for the year ended 20 February 2021

Non Technical Account	**Notes**	**2021 US$ '000**	**2020 US$ '000**
Balance of the technical account		1,128	2,038
Investment and other income	10	464	699
Gains / (losses) on the realisation of investments		1,672	811
Unrealised gains / (losses) on investments		1,670	3,554
Surplus / (deficit) on ordinary activities before tax		4,934	7,102
Tax on ordinary activities	11	(421)	(376)
Surplus / (deficit) on ordinary activities after tax		4,513	6,726
Reserves brought forward		43,911	37,185
Reserves carried forward		48,424	43,911

All activities represent continuing activities. There is no other comprehensive income.
The notes on pages 26 to 39 form an integral part of these Financial Statements.

Accounts (continued)

Balance Sheet
As at 20 February 2021

	Notes	2021 US$ '000	2020 US$ '000
Assets			
Other Financial Investments	12	48,556	42,537
Reinsurance share of unearned premium	6	1,856	2,530
Deferred acquisition cost for unearned premium	8	905	1,368
Debtors			
Debtors arising out of direct insurance operations			
- Policy holders		2,212	3,657
Debtors arising out of reinsurance operations		1,668	2,270
		3,880	5,927
Cash at bank and in hand		3,829	1,490
Prepayments	13	59	7
Accrued Interest		37	41
		59,122	**53,900**
Reserves and Liabilities			
Reserves		48,424	43,911
Unearned premium	5	2,843	3,929
Creditors			
Creditors arising out of direct insurance operations		854	164
Creditors arising out of reinsurance operations		4,467	2,798
Other creditors including taxation	14	425	1,266
		5,746	4,228
Accruals	14	113	100
Discretionary Continuity Credit		1,996	1,732
		59,122	**53,900**

These Financial Statements were approved by the Board of Directors on 26 May 2021.
Signed on behalf of the Board of Directors:
Chairman: **E. André**
Chief Financial Officer: **R.A.A. Harnal**
The notes on pages 26 to 39 form an integral part of these Financial Statements.

Accounts
(continued)

Cash Flow Statement
For the year ended 20 February 2021

	Notes	2021 US$ '000	2020 US$ '000
Operating activities			
Premiums received (net of brokerage)		14,855	12,216
Reinsurance premium received / (paid)		(8,317)	(9,893)
Other operating income received / (paid)		2,145	1,642
Acquisition costs received / (paid)		(204)	(202)
Administration costs received / (paid)		(2,577)	(125)
Discretionary Continuity Credit		(1,732)	(998)
Taxation received / (paid)		(376)	(232)
Net cash provided / (used) by operating activities		**3,794**	**2,408**
Cash flows from investment activities			
Purchase of investments		(17,343)	(19,801)
Sale of investments		15,421	17,072
Interest received / (paid)		321	28
Dividends on investments in equities		146	730
Net cash flow from investment activities		**(1,455)**	**(1,971)**
Net increase / (decrease) in cash and cash equivalents		2,339	437
Cash and cash equivalents at the beginning of the year		1,490	1,053
Cash and cash equivalents at the end of the year		**3,829**	**1,490**

The notes on pages 26 to 39 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 40.

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. There were no transactions and derivative financial instruments during the current and prior years.

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. 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.

Financial Assets being debtors, cash and prepayments are measured each year at amortised cost. The valuation of other financial assets are discussed in Note 2.8 below.

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.

2.13 Deferred acquisition costs
Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the statement of financial position date.

3. Critical accounting estimates
The Association makes no key estimations of uncertainty and assumptions that affect the reported amounts of assets and liabilities.

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:

Insurance risk – incorporating underwriting and reinsurance risk
Market risk – incorporating investment risk, interest rate risk and currency rate risk
Credit risk – being the risk that a counterparty is unable to pay amounts in full when due
Liquidity risk – being the risk that cash may not be available to pay obligations as they fall due
Operational risk – being the risk of failure of internal processes or controls
Limitation of the sensitivity analyses
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 2021, 84% of the reinsurance 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 is adequate as all claims are fully reinsured.

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

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

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

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

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

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

As at 20 February 2021	US Dollar US$ '000	Sterling US$ '000	Euro US$ '000	Total US$ '000
Fixed interest-Government	10,002	-	-	10,002
Fixed interest-Corporate	2,785	-	-	2,785
Equity & Alternatives	26,831	-	-	26,831
UCITS	8,898	-	-	8,898
Settlement account	40	-	-	40
Reinsurance share of unearned premium	1,856	-	-	1,856
Deferred acquisition cost of unearned premium	905	-	-	905
Debtors	3,880	-	-	3,880
Cash and cash equivalents	3,277	358	194	3,829
Other	96	-	-	96
	58,570	**358**	**194**	**59,122**

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**

Notes to the Financial Statements

Foreign currency sensitivity analysis
As at 20 February 2021 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$0.028m (2020: US$0.051m).

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 US$0.128m fall in the value of the Association's investments (2020: US$0.106m).

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 55% of the investment portfolio (2020: 56%).

A 10% increase in equity values would be estimated to have increased the surplus before tax at the year-end by US$2.683m (2020: US$2.366m). A 10% fall in equity values would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

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 measured at fair value by level of the fair value hierarchy:

As at 20 February 2021	Level 1	Level 2	Level 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Assets				
Government Fixed interest securities	-	10,002	-	10,002
Fixed income corporate bonds	2,785	-	-	2,785
Equity & Alternatives	26,831	-	-	26,831
UCITS	8,898	-	-	8,898
Settlement Account	40	-	-	40
	38,554	**10,002**	**-**	**48,556**

As at 20 February 2020	Level 1	Level 2	Level 3	Total
	US$ '000	US$ '000	US$ '000	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**

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.

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.

Notes to the Financial Statements

4.3 Credit Risk (continued)

Counterparty risk with respect to cash and investments (continued)

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

As at 20 February 2021	AAA/AA US$ '000	A US$ '000	BBB or less or not rated US$ '000	Total US$ '000
Fixed interest-Government	10,002	-	-	10,002
Fixed interest-Corporate	2,271	-	514	2,785
Equity & Alternatives	-	-	26,831	26,831
UCITS	8,898	-	-	8,898
Settlement account	40	-	-	40
Reinsurance share of unearned premium	-		1,856	1,856
Deferred acquisition cost of unearned premium	-	-	905	905
Debtors	-	-	3,880	3,880
Cash and cash equivalents	-	-	3,829	3,829
Other	-	-	96	96
	21,211	**-**	**37,911**	**59,122**

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**

There were no past due or impaired assets at 20 February 2021 (2020: 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 2021, the Association's short term deposits (including cash and UCITs) amounted to US$12.767m (2020: US$9.733m).

The Association's total liabilities excluding the unearned premium at 20 February 2021, were US$7.855m (2020: US$6.060m) all due within 12 months (2020: 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 2021	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	-	-	10,002	-	10,002
Fixed interest-Corporate	-	2,271	514	-	2,785
Equity & Alternatives	26,831	-	-	-	26,831
UCITS	8,898	-	-	-	8,898
Settlement account	40	-	-	-	40
Reinsurance share of unearned premium	1,856	-	-		1,856
Deferred acquisition cost of unearned premium	905	-	-	-	905
Debtors	3,880	-	-	-	3,880
Cash and cash equivalents	3,829	-	-	-	3,829
Other	96	-	-	-	96
	46,335	**2,271**	**10,516**	**-**	**59,122**

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**

Notes to the Financial Statements

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 Manager 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.

4.6 Limitation of the sensitivity analysis

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

4.7 Capital management

The Association'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 2021 this amounts to US$35.742m, which is made up of the SCR of US$25.461m and US$10.282m as the 1 in 20 year buffer.

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$52.607m (2020: US$46.684m). This exceeded the Solvency Capital Requirement (SCR) of US$25.461m by US$27.147m.

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:

	2021 US$ '000	2020 US$ '000
Advance contributions	1,200	1,141
Additional premiums	19,045	21,499
Total net contributions and premiums	**20,245**	**22,640**

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

Unearned premium reserve:

	2021 US$ '000	2020 US$ '000
Unearned provision brought forward	3,929	-
Movement in the year	(1,086)	3,929
Unearned provision carried forward	**2,843**	**3,929**

6. Reinsurance premiums

	2021 US$ '000	2020 US$ '000
Advance contributions	448	341
Total reinsurance for advance contributions	448	341
Additional premiums	9,536	11,822
Total reinsurance for additional premiums	9,536	11,822
Total reinsurance premium	**9,984**	**12,163**

Reinsurers' share of unearned Premium

	2021 US$ '000	2020 US$ '000
Reinsurers' share of unearned provision brought forward	2,530	-
Movement in the year	(674)	2,530
Reinsurers' share of unearned provision carried forward	**1,856**	**2,530**

a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is, for the 2020 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 Additional Premium areas in 2021, a deductible of US$250,000 on each and every loss is applicable on the main reinsurance contract.

7. Other technical income

	2021 US$ '000	2020 US$ '000
Commission income	1,543	2,085

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

8. 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.

	2021 US$ '000	2020 US$ '000
Brokerage on premiums	6,575	8,620
Movement in deferred acquisition costs	463	(1,368)
Management fee allocated to acquisition costs (note 15)	270	244
	7,308	**7,496**

Notes to the Financial Statements

8. Acquisition costs (continued)

Deferred acquisition costs

	2021 US$ '000	2020 US$ '000
Deferred acquisition costs brought forward	1,368	-
Movement in the year	(463)	1,368
Deferred acquisition costs carried forward	**905**	**1,368**

9. Administration costs

	2021 US$ '000	2020 US$ '000
Managers' costs (Note 15)	1,081	976
Directors' fees	23	21
Directors' travel and meeting expenses	4	15
Directors' and Officers' insurance	10	12
Managers' travel and meeting expenses	4	24
Auditors' Remuneration	76	74
Other professional fees	92	99
Printing and Stationery	9	11
Communications – telephones and postage	2	3
Bank charges	5	4
Sundry Expenses	9	21
	1,315	1,260
Investment Management Fees	6	5
	1,321	1,265

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

	2021 US$ '000	2020 US$ '000
Dividends from equities	287	282
Interest on bonds and government stocks	283	284
Interest on bank deposits	38	105
	608	671
Exchange gain / (loss) arising during the year	(144)	28
	464	**699**

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

	2021	2020
US Dollar	1.0000	1.0000
Euro	0.8247	0.9257
Sterling	0.7136	0.7765
Chinese Yuan Renminbi	6.4576	7.0155
Japanese Yen	105.633	112.094
Australian Dollar	1.2720	1.5089
Norwegian Krone	8.4450	9.3062

11. Taxation

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

	2021 US$ '000	2020 US$ '000
Corporation tax at 19% (2019: 19%)		
Current year	421	376
Actual tax per profit and loss	**421**	**376**

Notes to the Financial Statements

11. Taxation (continued)

The current taxation charge for the year is detailed below.

	2021 US$ '000	2020 US$ '000
Surplus / (deficit) on ordinary activities before taxation	4,934	7,102
Theoretical tax at UK Corporation Tax rate of 19% (2019: 19%)	937	1,349
Effects of:		
- Balance on the technical account not taxable	(198)	(388)
- UK dividends not taxable	(65)	(61)
- Unrealised gain on equities not taxable	(262)	(512)
- Indexation allowance on realised gains	(35)	(22)
- Adjustment to tax charge in respect of prior periods	44	10
	421	**376**

12. Other financial investments

	Market Value 2021 US$ '000	Market Value 2020 US$ '000	Cost 2021 US$ '000	Cost 2020 US$ '000
Government Fixed interest securities	10,002	6,813	9,800	6,705
Fixed Income Corporate bonds	2,785	3,811	2,747	3,747
Equity & Alternatives	26,831	23,669	16,279	15,155
UCITS	8,938	8,244	10,260	9,284
	48,556	**42,537**	**39,086**	**34,891**

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

	2021 US$ '000	2020 US$ '000
Prepayments	59	7

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

14. Other Creditors including taxation and accruals

	2021 US$ '000	2020 US$ '000
Cash settlement Investment portfolio	5	890
Taxation	421	376
	426	1,266
Audit, accountancy and taxation	76	57
Accrued expenses	37	43
	113	**100**

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:

	2021 US$ '000	2020 US$ '000
Acquisition costs	270	244
Administration	1,081	976
	1,351	**1,220**

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

There were no post balance sheet events requiring disclosure.

Managers and Officers

Managers

Thomas Miller War Risks Services Limited

Directors Of Thomas Miller War Risks Services Limited

K. Halpenny	
R.A.A. Harnal	
P. Knight	Appointed 30 September 2020
R. Lingard	Retired 31 May 2020
A.E. Ward	
N.J. Whitear	

Secretary

K. Halpenny

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Registered Number

01901415 ENGLAND Thomas Miller & Co Ltd

Notes

2020 has turned out to be a very stable year in respect of member retention... After renewal on 20 February 2021, the Association had 803 ships entered with a TEV of over US$ 31bn.

E André, Chairman

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