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THE · UNITED · KINGDOM · MUTUAL · WAR · RISKS  
ASSOCIATION · LIMITED

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REGISTERED OFFICE · INTERNATIONAL HOUSE · 26 CREECHURCH LANE · LONDON EC3A 5BA · REGISTERED IN ENGLAND NO. 127267

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**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 20TH FEBRUARY, 2002**



Registered Number: 127262

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

Limited by Guarantee

**NOTICE OF MEETING**

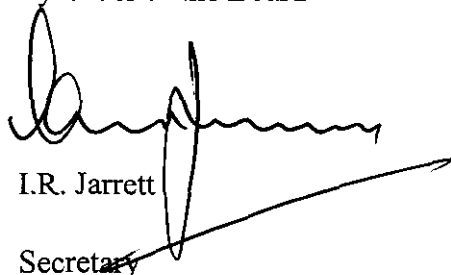
The Annual General Meeting of the Members of The United Kingdom Mutual War Risks Association Limited will be held in the offices of the Association, International House, 26 Creechurch Lane, London, EC3A 5BA on Tuesday 15th October 2002 at 12.00 noon for the following purposes:-

To receive the Directors' Report with Financial Statements for the year ended 20th February 2002 and, if they are approved, to adopt them.

To elect Directors.

To re-appoint the auditors and authorise the Directors to fix their remuneration.

By Order of the Board



I.R. Jarrett

Secretary

30<sup>TH</sup> APRIL 2002

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**DIRECTORS**

R.G. Crawford C.B.E. (Chairman)

J.G.M. Freeman

C.D. Wannell

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **REPORT OF THE DIRECTORS**

The Directors have pleasure in presenting their Report and the Financial Statements of the Association for the year ended 20th February, 2002.

### **PRINCIPAL ACTIVITY**

The principal activity of the Association is the insurance against war risks of British owned ships and foreign flagged ships of existing Members. The total number of the ships entered for insurance with the Association at noon on 20th February, 2002 was 394 ships valued at £7.161 billion compared with 260 ships valued at £5.669 billion for the previous year. Entry of ships in the Association is recorded in several currencies which have been converted to sterling at exchange rates applicable for the year and agreed with the reinsuring underwriters.

The Association is party to a Pooling Agreement under which its liabilities are pooled with six other similar Associations to form the Combined Group of War Risks Associations. In the year under review, the Group was reinsured without deductible but with the market automatic termination of cover clause.

### **CLAIMS PAID**

No new claim notifications were received for the year ended 20th February 2002 in respect of ships entered in the Association.

### **CONTRIBUTIONS AND PREMIUMS**

The events of 11th September 2001 led to a radical change in the reinsurance market with a substantial increase in the reinsurance premium which the Association is required to pay from 20th February 2002. In addition, volatility in the financial markets has continued to adversely affect the Association's investment income. At the meeting of the Board on 15th January 2002, the Directors decided that in the light of these very changed circumstances, no return should be made of the first instalment of the advance contributions due in respect of the 2001/2002 policy year upon the closing of that year. However, the Directors also decided to utilise the Association's financial reserves to enable the second instalment to be waived.

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **REVIEW OF THE YEAR**

During the year under review, daily reports continued to be filed by the world's press reporting on wars, political and civil unrest or incidents of terrorism or piracy in many parts of the world. While some of the "hot spots" did not directly affect shipping, the majority had some influence on national or international trade and commerce and thus impacted to some extent on international sea transportation.

The unresolved issues between Israel and the Palestinians returned to heightened prominence towards the end of the year while unrest in several parts of West Africa required shipping to remain alert in that part of the world. Attacks on ships in the Malacca Straits continued to be a source of concern despite international efforts being made to rid the area of the potentially dangerous activities of armed boarding parties.

In Sri Lanka there were several incidents involving the government forces and the rebel Tamil Tigers. In February, the Sri Lankan navy sank two rebel boats off Jaffna. When hit, the two boats blew up, indicating they were probably carrying explosives. The following month a Sri Lankan navy boat was sunk by LTTE rebels with the loss of seven sailors. At least ten people were killed and twenty-five wounded when the Tamil Tigers launched an attack in Eastern Sri Lanka in June and the following month, in much the most serious incident, the airport at Colombo was attacked. Several military and civilian aircraft were destroyed and twenty-one people were killed. Losses to the insurance market were estimated at \$500m. At that time this was the largest single war loss sustained by the market, which responded with swingeing rises in premium levels for calls to Colombo. These rates were only reduced at a later date following diplomatic intervention. By then the position had become so serious economically that a number of shipping lines had decided to cease calling at Sri Lankan ports.

None of these individual incidents or on-going conflicts, some of considerable longevity, had anything like the impact on the insurance and financial markets, or on world trading generally, as the unprecedented events of 11th September in the United States. On that day two planes, taken over by Al Qaeda terrorists, flew into and destroyed the World Trade Centre in New York. A third plane, taken over by terrorists, was flown into the Pentagon and a fourth crashed in the US countryside, killing all on board. Several thousand lives were lost in these horrendous acts of terrorism and an international coalition was formed to fight terrorism on a global basis.

The affect of these events on the marine insurance market was dramatic. Many policies were cancelled and re-written at very high rates. New additional premium areas were introduced in the Middle East and Gulf regions. By the end of the year rates had begun to be reduced, but the insurance market remained nervous, regarding those operating cruise/passenger ships, in particular, as high risk targets for possible future terrorist attack.

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **REVIEW OF THE YEAR (continued)**

It would be very difficult to forecast how long it may take for rates in the insurance market to return to the level at which they were when the year opened. At the closure of the year the list of additional premium areas was as follows:-

- Algeria
- Angola (including Cabinda)
- Arabian Gulf and adjacent waters including Gulf of Oman north of 24 degrees North
- Congo, Democratic Republic of (formerly Zaire)
- Egypt
- Eritrea
- Gulf of Aqaba
- Israel
- Lebanon
- Liberia
- Libya (including Gulf of Sidra/Sirte)
- Oman
- Pakistan
- Red Sea
- Sierra Leone
- Somalia
- Sri Lanka
- Syria
- Yemen
- Yugoslavia, Federal Republic of (Serbia and Montenegro)

### **DIRECTORS**

The Directors of the Association are shown on page 2.

At the Annual General Meeting on 15th October 2002, Mr R.G. Crawford retires by rotation in accordance with Article 53 of the Articles of Association and, being eligible, offers himself for reappointment.

The Board of Directors have a Directors' and Officers' liability policy in place. The cost of this insurance is met by the Association and included in general expenses.

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **MEETINGS OF THE DIRECTORS**

In the year under review, the Directors met formally on three occasions. They maintained contact with the Managers through telephone or correspondence between meetings, in order to fulfil the general and specific responsibilities entrusted to them by the Members in accordance with the Articles and Rules of the Association.

Items considered at one or more of these meetings included:-

#### Rules of the Association and Regulatory Issues

- Amendments to the Rules of the Association;
- Impact of the new regulatory requirements of the Financial Services Authority.

#### Premium and reinsurance rates

- Closure of the 2000 and 2001 policy years;
- Reinsurance contract for the year commencing 20th February 2002;
- Rates to Members for the year commencing 20th February 2002;
- New Additional Premium areas.

#### Claims

- The "ISOMERIA".

#### Reports received

- Financial statements for the year ended 20th February 2001;
- Returns to the Financial Services Authority under Insurance Companies legislation;
- Investments and investment strategy;
- Disaster Recovery procedure;
- Auditors' report on issues arising from the annual audit;
- Auditors' review of the systems of control implemented and maintained by the Managers including the Quality Manual produced as part of their work to obtain quality certification under ISO 9001
- Renewal report illustrating the tonnage entered with the Association;
- The current reserves of The Combined Group;
- Historical comparison of financial results 1996-2000;
- Updated Directors' Guide;
- Scenario analysis of various rating alternatives for 2002 Advance Contribution.



## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **MEETINGS OF THE DIRECTORS (continued)**

#### The Board of Directors

- Possible new members of the Board;
- Election of Officers;
- Directors' and Officers' Liability Insurance;
- Directors' remuneration.

#### The Management Team

- Staff changes

#### Other issues

- Auditors' Letter of Engagement for Audit Services

### **FINANCIAL SERVICES AUTHORITY**

From 1st December 2001, identified as "N2" in their planning, the Financial Services Authority (FSA) became the sole regulator within the UK for all financial services institutions. In this context, two particular matters were addressed by the Board, namely the Scope of Permission Statement and the Approved Persons regime. The Permission Statement sets out the regulated activities which a regulated firm is entitled to carry on, including limitations on classes of business it may underwrite. The Association continues to be able to carry out exactly the same activities after N2 as it was authorised to do before N2.

The Approved Persons regime designates certain controlled functions within which there are functions of significant influence. Mr R.G. Crawford, as Chairman of the Board, was authorised by the Board to discharge the Apportionment of Responsibility and Oversight function. The Managers were appointed to discharge the Chief Executive function.

Through the grandfathering process, the Directors were authorised as Directors of the Association in precisely the same way after N2 as they had been prior to N2.

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **AUDITORS**

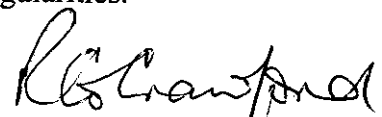
The Association's auditors, Blueprint Audit Limited, have indicated their willingness to continue in office and a resolution will be proposed for their reappointment in accordance with section 385 of the Companies Act 1985 at the Annual General Meeting to be held on Tuesday 15th October 2002.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company Law requires the Directors to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Association as at the end of the financial year including the surplus or deficit of the Association for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume the Association will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Association enabling them to ensure that the Financial Statements comply with the Companies Acts. 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.



Mr R.G. Crawford

Chairman

30<sup>TH</sup> APRIL 2002

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**REPORT OF THE AUDITORS**

**TO THE MEMBERS OF THE UNITED KINGDOM MUTUAL WAR RISKS  
ASSOCIATION LIMITED**

We have audited the Financial Statements on pages 10 to 24 which have been prepared under the historic cost convention, as modified by the revaluation of investments, and the accounting policies set out on pages 13 to 15.

**Respective Responsibilities of Directors and Auditors**

As described on page 8, the Company's Directors are responsible for the preparation of the Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those Financial Statements and to report our opinion to you.

**Basis of Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An Audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

**Opinion**

In our opinion the Financial Statements give a true and fair view of the state of the Company's affairs as at 20th February 2002 and its deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Blueprint Audit Limited  
Chartered Accountants and Registered Auditors  
805 Salisbury House  
31 Finsbury Circus  
London  
EC2M 5SQ

*Blueprint Audit Limited*

*30<sup>th</sup> April 2002*

**THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED**

**INCOME AND EXPENDITURE ACCOUNT**  
**for the year ended 20th February 2002**

<b>TECHNICAL ACCOUNT</b>	<b>Note</b>	<b>2002 £000's</b>	<b>2001 £000's</b>
Gross premium written	4	2,060	20
Outward reinsurance premium	5	<u>(2,353)</u>	<u>(380)</u>
		<u>(293)</u>	<u>(360)</u>
Other technical income	6	140	-
Claims incurred, net of reinsurance			
- Claims paid			
Gross claims paid		-	(34)
Reinsurers' share		-	34
- Change in the provisions for claims			
Decrease in gross outstanding claims		-	47
Decrease in Reinsurers' share	15	<u>-</u>	<u>(47)</u>
		-	-
Acquisition costs	7	(4)	(4)
Administration costs	8	<u>(212)</u>	<u>(193)</u>
Balance of the technical account		<u>(369)</u>	<u>(557)</u>
 <b>NON TECHNICAL ACCOUNT</b>			
Balance of the technical account		<u>(369)</u>	<u>(557)</u>
Investment and other income	9	570	573
Loss on the realisation of investments		(21)	(30)
Unrealised (loss)/gain on investments		<u>(759)</u>	<u>84</u>
(Deficit)/Surplus on ordinary activities before tax	3	(579)	70
Tax on ordinary activities	13	<u>66</u>	<u>(168)</u>
<b>Deficit on ordinary activities after tax</b>		<u><u>(513)</u></u>	<u><u>(98)</u></u>
Income and Expenditure account brought forward		<u>12,263</u>	<u>12,361</u>
Income and Expenditure account carried forward		<u>11,750</u>	<u>12,263</u>

All activities represent continuing activities. There are no recognised gains or losses other than the surplus for the year.

The annexed notes form an integral part of these Financial Statements.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

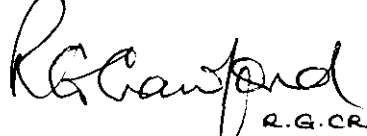
**BALANCE SHEET**

**as at 20th February 2002**

	Note	2002 £000's	2001 £000's
<b>ASSETS</b>			
<b>Other Financial Investments</b>	10	11,389	12,490
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding	15	-	22
<b>Debtors</b>			
Debtors arising out of direct insurance operations			
- Policy holders		975	1
Debtors arising out of reinsurance operations		140	-
Other debtors		66	-
<b>Cash at bank and in hand</b>		307	51
<b>Accrued Interest</b>	11	<u>48</u>	<u>116</u>
		<u>12,925</u>	<u>12,680</u>
<b>LIABILITIES</b>			
<b>Reserves</b>			
Income and Expenditure		11,750	12,263
<b>Creditors</b>			
Creditors arising out of direct insurance operations		80	87
Creditors arising out of reinsurance operations		1,067	134
Other creditors including taxation	13	<u>4</u>	<u>170</u>
		<u>1,151</u>	<u>391</u>
<b>Accruals</b>	12	<u>24</u>	<u>26</u>
		<u>12,925</u>	<u>12,680</u>

These Financial Statements were approved by the Board of Directors on 30<sup>TH</sup> APRIL 2002

Signed on behalf of The Board of Directors

  
R.G. CRAWFORD

Directors

 C. D. WANNELL

  
P.N. LINDREA

Director, Thomas Miller War Risks Services Limited as Managers

The annexed notes form an integral part of these Financial Statements.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**CASH FLOW STATEMENT**  
**for the year ended 20th February 2002**

	Note	2002 £000's	2001 £000's
<b>Net cash flow from operating activities</b>			
Premium received		1,079	99
Reinsurance premium paid		(1,420)	(347)
Claims recovered/(paid)		22	(22)
Other operating cash payments		<u>(217)</u>	<u>(196)</u>
		(536)	(466)
Interest received		638	574
Taxation paid		<u>(167)</u>	<u>(160)</u>
Decrease in cash	14	<u><u>(65)</u></u>	<u><u>(52)</u></u>
 <b>CASH FLOWS WERE INVESTED AS FOLLOWS:</b>			
Increase in cash		256	3
<b>Net portfolio investment</b>			
Sale of fixed income securities		(1,225)	(56)
Purchase of units in unit trusts		877	83
Deposits with credit institutions		<u>27</u>	<u>(82)</u>
		<u>(321)</u>	<u>(55)</u>
<b>Total</b>	14	<u><u>(65)</u></u>	<u><u>(52)</u></u>

The annexed notes form an integral part of these Financial Statements

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **1. Constitution**

The Association is incorporated in England as a company limited by guarantee and not having a share capital

In the event of the Company's liquidation, any net assets of the Association are to be distributed amongst such Members and former Members in such proportions and amounts as the Directors shall decide.

#### **2. Accounting policies**

##### **a) Accounting basis**

These financial statements have been prepared under the provisions of Section 255 of, and Schedule 9A to the Companies Act 1985. The accounts comply with applicable accounting standards. The Financial Statements are prepared on an annual basis under the historical cost convention as modified by the revaluation of investments and comply with all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

##### **b) Policy year accounting**

Contributions and premiums, claims paid, reinsurance recoveries, reinsurance premiums and the management fee are allocated to the policy years to which they relate.

Investment income and interest, profit/losses on sale of investments, exchange gains/losses and general expenses are allocated to the current policy year.

##### **c) Foreign currencies**

Foreign currency assets and liabilities have been translated at the closing sterling exchange rate. The resultant difference is included in the non-technical account.

Revenue transactions are translated into sterling at the rate applicable for the month in which the transaction took place. Differences between closing exchange rates and the rates applying to outstanding forward currency contracts are also recognised.

All exchange gains and losses, whether realised or unrealised, have been included in other income or expenditure in the non-technical account.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. Accounting policies (continued)**

**d) Contributions and premiums**

Contributions and premium 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.

**e) Claims incurred**

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 judgement of the Managers of the likely final cost of individual cases based on current information. The individual estimates are reviewed regularly and include this Association's share of other association's pool claims. There has been no deterioration of claims in prior years.

**f) Reinsurance recoveries**

The Directors are satisfied that the funds of the Association are adequately protected by reinsurance.

Reinsurance recoveries, including receipts and amounts due under these contracts on claims already paid and claims outstanding, are included in the Income and Expenditure Account.



THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. Accounting Policies (continued)**

**g) Reinsurance premiums**

Reinsurance premiums payable by the Association are charged to the Technical Account on an accruals basis and, as noted above, to the policy year to which they apply.

**h) Income from other investments**

Income from other investments comprises interest received and accrued on bonds and bank deposits, and distributions from equities.

**i) Investments**

**Balance Sheet**

Investments are valued at market value to comply with the Statement of Recommended Practice on Accounting for Insurance Business. It is not the intention of the Board to liquidate the portfolio and bonds will be held to maturity if considered appropriate.

Market value is calculated using the middle market price at the close of business on the date of the Balance Sheet. The cost of these investments is disclosed by way of note.

In the case of non-sterling investments, the market value is translated at the closing rate of exchange at the date of the Balance Sheet. The cost of non sterling investments is translated into sterling at the date of purchase.

**Non Technical Account**

For investments purchased during the year, the unrealised gains and losses on the movement in their market value compared to the cost are shown in the Non-Technical Account. Where the investments held have been purchased in a previous period, the unrealised gains and losses represent the movement in their market value from the start of the year to the end of the year.

**j) Reserves**

This amount is available to meet claims not passed or ascertained and liabilities which may arise under unexpired risks at the date of the Balance Sheet for which no specific provision has been made.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3. Note of historical cost surpluses and deficits**

	2002 £000's	2001 £000's
Reported (deficit)/surplus on ordinary activities before taxation	(579)	70
Change in adjustment of investments from book value to market value	<u>759</u>	<u>(84)</u>
Historical cost surplus/(deficit) on ordinary activities before taxation	<u>180</u>	<u>(14)</u>
Historic cost surplus/(deficit) for the year retained after taxation	<u>246</u>	<u>(182)</u>

**4. Contributions and premiums**

Contributions and premiums have been charged as follows:

	2002 £000's	2001 £000's
<b>Advance contributions</b>		
United Kingdom flagged vessels	59	47
Less: Provision for return of contributions - (99%)	<u>-</u>	<u>(46)</u>
Advance contributions	59	1
Foreign flagged vessels of existing Members	<u>27</u>	<u>19</u>
Total advance contributions	86	20
Additional premiums	<u>1,974</u>	<u>-</u>
Total contributions and premiums	<u>2,060</u>	<u>20</u>

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 4. Contributions and premiums (continued)

At a Directors' meeting held on 15th January 2002, it was decided that no return be made to Members of the advance contributions due in respect of the 2001/2002 policy year upon the closing of that year.

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

#### 5. Reinsurance premiums

	2002 £000's	2001 £000's
Advance contributions for UK flagged vessels	343	354
Foreign flagged vessels of existing Members	<u>36</u>	<u>26</u>
Total reinsurance for advance contributions	379	380
Additional premiums	<u>1,974</u>	<u>-</u>
Total reinsurance premium	<u>2,353</u>	<u>380</u>

The Association is a party to a pooling agreement whereby its liabilities are pooled with six other similar Associations forming the Combined Group of War Risks Associations. The Group is protected against the incidence of claims by reinsurance treaties under which the Group is, for the 2002/2003 policy year, fully reinsured without deductible up to £325 million or US\$500 million, but with the market automatic termination of cover clause.

#### 6. Other technical income

	2002 £000's	2001 £000's
Commission income	<u>140</u>	<u>-</u>

Additional Premiums for breach of warranty are paid at 70% net of original rates agreed for individual breaches. A return is made to the Association to reduce the proportion payable to 65% net at expiry.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7. Acquisition Costs**

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

	2002 £000's	2001 £000's
<b>8. Administration Costs</b>		
Managers' costs (note 16)	146	141
Directors' fees	13	13
Directors' and Officers' insurance	4	4
Group Secretariat expenses	10	9
Audit fees	14	13
Professional fees paid to the auditors	6	5
Other professional fees	1	2
Printing and Stationery (including the Rules)	1	2
Communications - telephones, telex, facsimile and postage	1	1
Exchange differences	-	2
Bank charges	<u>1</u>	<u>1</u>
	197	193
Investment Management Fees:		
Safe custody fees	<u>15</u>	<u>-</u>
	<u>212</u>	<u>193</u>

The Managers' costs cover the provision of staff and offices, other than the costs of processing proposals and the issuing of policies which have been disclosed under acquisition costs.

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

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

9.	<b>Investment and Other Income</b>	2002 £000's	2001 £000's
	Distributions from unit trusts	27	25
	Interest on bonds and Government stocks	507	508
	Interest on bank deposits	<u>42</u>	<u>50</u>
		576	583
	Exchange loss arising during the year	<u>(6)</u>	<u>(10)</u>
		<u>570</u>	<u>573</u>

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

	2002	2001
US\$	1.4278	1.4459
Japanese Yen	191.118	167.717
Irish Punt	1.2900	1.2369
Euro	1.6379	1.5705

10.	<b>Other Financial Investments</b>	2002 £000's	2001 £000's
	Units in unit trusts	4,547	4,388
	Debt securities and other fixed income securities	6,815	8,102
	Deposits with credit institutions	<u>27</u>	<u>-</u>
		<u>11,389</u>	<u>12,490</u>

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.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

<b>10.</b>	<b>Other Financial Investments (continued)</b>	<b>2002</b>	<b>2001</b>
		<b>£000's</b>	<b>£000's</b>
	<b>Debt securities and other fixed income securities at market value</b>		
	Bonds and Warrants	4,017	-
	U.K. Government stocks	<u>2,798</u>	<u>8,102</u>
		<u>6,815</u>	<u>8,102</u>
	<b>Debt securities and other fixed income securities at cost</b>		
	Bonds and Warrants	4,000	-
	U.K. Government stocks	<u>2,807</u>	<u>8,053</u>
		<u>6,807</u>	<u>8,053</u>
	<b>Units in unit trusts at market value</b>	<u>4,547</u>	<u>4,388</u>
	<b>Units in unit trusts at cost</b>	<u>3,602</u>	<u>2,725</u>
		<b>2002</b>	<b>2001</b>
		<b>£000's</b>	<b>£000's</b>
<b>11.</b>	<b>Accrued interest</b>		
	On bonds and Government stocks	48	116
	On bank deposits	<u>-</u>	<u>-</u>
		<u>48</u>	<u>116</u>
<b>12.</b>	<b>Accruals</b>		
		<b>2002</b>	<b>2001</b>
		<b>£000's</b>	<b>£000's</b>
	Directors' fees	9	9
	Audit, accountancy and taxation	15	16
	Accrued expenses	<u>-</u>	<u>1</u>
		<u>24</u>	<u>26</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**13. Taxation**

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

	2002 £000's	2001 £000's
United Kingdom corporation tax on investment income at 30%		
Current	-	169
Overprovision for prior year	-	(1)
Prior year tax refund relating to non-trade loan relationship debits	<u>(66)</u>	<u>-</u>
	<u>(66)</u>	<u>168</u>

b) The tax amount outstanding in the Balance Sheet represents:-

	2002 £000's	2001 £000's
<b>Other creditors including taxation and social security</b>		
Corporation tax on income received at 30%	-	167
Income tax payable	<u>4</u>	<u>3</u>
	<u>4</u>	<u>170</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**14. Cashflow Statement**

**Movement in cash, deposits and investments**

	At 21/02/01	Cash flow	Changes to market values, currencies and other changes	At 20/02/02
Cash at bank	51	256	-	307
Deposits with credit institutions	-	27	-	27
Fixed income securities	8,102	(1,225)	(62)	6,815
Units in Unit Trusts	<u>4,388</u>	<u>877</u>	<u>(718)</u>	<u>4,547</u>
	<u>12,541</u>	<u>(65)</u>	<u>(780)</u>	<u>11,696</u>

**Reconciliation of the balance on the technical account to the net cash flow from operating activities**

	2002 £000's	2001 £000's
Balance on the technical account	(369)	(557)
Decrease in technical provision for claims	-	(47)
Decrease in reinsurers' share of technical provision for claims	22	25
(Increase)/Decrease in debtors	(1,114)	25
Increase in creditors	<u>925</u>	<u>88</u>
Net cash flow from operating activities	<u>(536)</u>	<u>(466)</u>



THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**15. Claims**

**Technical Account**

	2002 £000's	2001 £000's
<u>Claims paid</u>		
Claims paid to the Combined Group	-	-
Claims paid to Policyholders	-	34
Claims handling expenses	<u>-</u>	<u>-</u>
	<u>-</u>	<u>34</u>

Change in the provisions for claims

	2002 £000's	2001 £000's
<u>Provisions brought forward</u>		
Gross claims	-	47
Reinsurance	-	(47)

Provisions carried forward

Gross claims	-	-
Reinsurance	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

**Balance Sheet**

	2002 £000's	2001 £000's
<u>Technical provisions</u>		
Claims outstanding		
Gross amount due to the Combined Group	-	-
Gross amount due to Policyholders	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
<u>Reinsurers' share of technical provisions</u>		
Claims outstanding	<u>-</u>	<u>22</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**16. Managers' Remuneration**

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

	2002 £000's	2001 £000's
Acquisition costs	4	4
Claims handling costs	-	-
Administration	<u>146</u>	<u>141</u>
	<u>150</u>	<u>145</u>

**17. 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 only transactions between the Association and the Members.

All the Directors are former or current representatives or agents of member companies and other than the insurance and member interests of the Directors' companies, the Directors have no financial interests in the Association.

**18. 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.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**MANAGERS**

THOMAS MILLER WAR RISKS SERVICES LIMITED

**DIRECTORS**

P.N. Lindrea

I.R. Jarrett

G.C. Drake

**SECRETARY**

I.R. Jarrett

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