

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

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 20 FEBRUARY 2013**



Registered Number 127262

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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\* These sections make up the Directors' Report

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**CHAIRMAN'S STATEMENT**

The Association was incorporated in February 1913, and so this year marks its centenary. On this occasion, the Review of the Year sets developments during 2012-13 in a broader context.

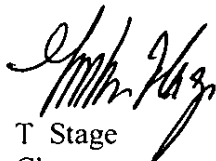
The Association is proud of its long standing links with UK ship owners, having originally been established to insure ships flying the Red Ensign. In the globalised shipping industry of the 21st century, it also welcomes entries from fleets with no connection to the UK. The Association has established itself as an international war risks mutual.

The Review highlights how the membership has grown over the past three years – by 20 February 2013 the total entered value had passed \$20 billion – and become more international. At the year end, international entries accounted for about 20% of that total. It emphasises the Association's specialist focus on war risks and the mutual benefits it offers Members in terms of service and cost, with a 15% return of call and annual rates being reduced by 7.5% for 2013-14.

The Review also summarises the Association's risk transfer strategy and includes a section on investments and finances. These factors have helped to maintain a sound financial foundation for the Association: reserves at the yearend increased to \$31.3 million.

Regrettably, at the 2013 renewals BP Shipping, the Association's largest Member, withdrew its fleet, further reference to the withdrawal being made on page N of the Review of the Year. As a result, Colin Wannell was obliged to resign as Chairman and from the Board, because he was no longer eligible for appointment. I would like to take this opportunity to thank him for the contribution he made to the Association as Chairman and over his 13 years' service as Director.

In the 21st century, the war risks market has proved to be changeable, as evidenced by the effects of the 9/11 attacks in 2001 and the emergence of Somali piracy from 2007. It has been challenging as a result and the current state of the shipping market brings with it more challenges for the Association. As it begins its second century, the Association remains committed to mutuality, to diversifying its membership and to focusing on war risks, which will put it in the strongest possible position to respond to market developments.



T. Stage  
Chairman  
9 April 2013

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **2013 ANNUAL REVIEW**

#### **INTERNATIONAL**

In 1913, the membership of the Association was exclusively UK flagged. Over time, insurance and shipping became global businesses and the membership developed to include ships that were UK owned but not UK flagged. Since 2009, membership has been international – open to ship owners with no connection to the UK.

Over the last four years, 33 international fleets with a total entered value of approximately \$4 billion have joined the Association. 16 of those fleets were from Asia and 14 from continental Europe.

The table below compares the number of ships entered in the Association and the total entered value over the last three years. Although there was a marginal fall in the number of ships during the year, the total entered value increased by \$900 million, building on the increase in the previous year.

<b>On 20 February</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Number of ships	973	984	872
Total entered value	\$20.2	\$19.3bn	\$17.6bn

During 2012-13, over 50 ships with a total entered value of approximately \$1 billion joined the Association. The new additions to the Association during 2012-13 included entries from fleets based in China, Denmark, Italy, Kuwait, Malaysia and Singapore, as well as the UK. There were also various additions to and withdrawals from existing fleets. At the end of the year, international entries accounted for about 40% of the Member groups in the Association and about 20% of the total entered value.

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

#### **WAR RISKS**

The Association is one of a handful of marine insurers specialising in and focusing on war risks insurance. Developments during 2012-13 demonstrated once again the risks to which ship owners remain exposed.

Although the level of Somali pirate activity fell significantly as more ship owners started deploying armed security teams and international naval forces remained active in the region, 5 ships were seized during 2012. The level of pirate activity off the West African coast increased, with ships being seized, some cargo being stolen and crew members being injured. The periods of seizure in the West African cases continued to be relatively short, compared to Somali pirate seizures. Fortunately, none of the ships seized was entered in the Association.

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **2013 ANNUAL REVIEW (continued)**

#### **WAR RISKS (continued)**

Instability in the Middle East continued throughout the year. Internal conflict in Syria intensified and the situation deteriorated as a result. Early in 2013, the likelihood of international involvement appeared to be increasing. Presidential elections in Egypt were followed by demonstrations, riots and heightened domestic tensions. Tensions between Israel and the Palestinian Authority increased, culminating in air strikes and rocket attacks, followed by a ceasefire in November 2012. The Iranian government warned it would seek to close the Straits of Hormuz if its exports of crude oil were disrupted following extensions of international sanctions. These developments were the cause of some concern, but did not disrupt shipping, as transits of the Suez Canal and the Straits of Hormuz continued uninterrupted.

Members' trading environment remains unstable and potentially risky. In this environment, the Association will maintain its focus on war risks, providing specialist cover, enabling it to extend the breadth and depth of expertise and knowledge available to assist Members.

#### **MUTUALITY**

While the last century has seen considerable change in the insurance and shipping industries, the Association has remained strongly mutual, run by and for its Members. The benefits of mutuality include a greater focus on Members' needs, provision of insurance at competitive rates and more stable cost over time.

During the year, Members continued to benefit from very competitive Additional Premium ("AP") rates for transits of the Gulf of Aden / Indian Ocean. The Association also continued to offer Members discounts on AP rates for transits where armed guards were deployed, providing that the Managers were satisfied with the terms of the contract with the security company and the arrangement in place.

Members have also benefitted from the Association's healthy financial position (detailed in the "Finance" section of this review), enjoying lower rates of Advance Contributions and returns of call. Advance Contributions were reduced by 7.5% for 2013-14 and renewing Members also received a 15% return on 2012-13 Advance Contributions.

The Association has always been committed to providing first class service. During the year, most day-to-day activity related to issuing of insurance documents and providing quotes for AP cover, both being done as matters of priority.

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## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **2013 ANNUAL REVIEW (continued)**

#### **MUTUALITY (continued)**

Service to Members includes assistance with managing incidents and guidance on claims presentation. Fortunately, no new claims were notified in 2012-13. The Association, nevertheless, continued to advise Members on measures to prevent and deter pirate attacks and on the terms of contracts for security teams. It was also able to assist cruise and passenger ship Members who required “Blue Cards” for war risks liabilities under the terms of the EU Passenger Liability Regulation, which came into force on 31 December 2012.

Feedback gave opportunities to respond to Members’ specific needs and further improve the service the Association’s provides. The Association will continue seeking Members’ comments and views on service, while continuing to provide insurance at competitive rates.

#### **RISK TRANSFER**

The Notes to the Financial Statements include details of the Association’s reinsurance programme. The Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During 2012-13, about 68% of the contract was insured at Lloyd’s, with the balance being in the companies and overseas markets. The reinsurance is placed with reinsurers having at least an ‘A-’ rating and the Association is entitled to remove any one whose rating falls below that level during the year. No single reinsurer writes a line of more than 10% on the contract. The risk transfer strategy will be maintained.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**2013 ANNUAL REVIEW (continued)**

**FINANCES**

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ended 20th February 2013, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 15 October 2013

The table compares the key financial information from the 2013 financial year with the corresponding figures from the 2012 financial year

<b>Year ended 20 February</b>	<b>2013</b>	<b>2012</b>
<b>All figures in \$000s</b>		
Gross premium written	4,631	6,145
Outward reinsurance premium	(3,597)	(4,852)
Other technical income	221	422
Acquisition and administration costs	<u>(1,537)</u>	<u>(1,398)</u>
Operating (deficit)/surplus on the technical account	(282)	317
Net investment income after tax	<u>1,409</u>	<u>340</u>
Surplus for the year after tax	<u>1,127</u>	<u>657</u>
Reserves as at 20 February 2012	<u>30,206</u>	<u>29,549</u>
<b>Reserves as at 20 February 2013</b>	<b><u>31,333</u></b>	<b><u>30,206</u></b>

Gross premium (excluding return of call) written for the year was 23% of the figure from the previous year. The main reason for the fall was a reduction in Additional Premium ("AP") income which resulted from fewer AP voyages and, more significantly, from discount given to ships transiting the Gulf of Aden/Indian Ocean AP area that either armed guards on board or Kidnap and Ransom Insurance policies in place. There was a corresponding decrease in reinsurance premium.

The fall in income led to an operating deficit after the 15% return of call of \$282k compared to a surplus of \$317k the previous year. Investment income at \$1.4m however was significantly higher.

The surplus of \$1.1m for the year meant that free reserves at the year-end increased to \$31.3m. The Reserves exceeded the required capital requirement of \$3.6m.

The Association's reserving policy is to maintain reserves between \$27.5 million and \$32.5 million, it is detailed in the Directors' Report.

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THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**2013 ANNUAL REVIEW (continued)**

**INVESTMENTS**

The Association's primary investment objectives are the conservation and accumulation of capital to cover its future obligations and to support the business. The portfolio is invested in US dollar bonds, cash, equities and absolute return funds.

The yields on US dollar cash and bonds ended the financial year at similar levels to those at the start of the year, close to their historical lows. A holding in corporate bonds improved the overall return. Although there were downturns in the US equity market in May and October, equities rallied from late 2012 and the market ended the year on a strong upward trend. Returns on absolute return funds were generally stable, except for a sharp dip in June following the fall in equity markets.

The overall return for the year ended 20 February 2013 was 5.2%, producing investment income of \$1.4 million.



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, 90 Fenchurch Street, London on 15 October 2013 at 10 30am for the following purposes -

To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2013 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

A handwritten signature in black ink, appearing to read 'K Halpenny', followed by a long horizontal flourish.

K Halpenny  
Company Secretary  
9 April 2013

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THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**DIRECTORS**

C D Wannell (Chairman)  
BP Oil International Limited, London

Resigned 20 February 2013

T Stage  
Svitzer A/S, Copenhagen

Appointed Chairman 9 April 2013

E F Andre  
Suisse-Atlantique  
Societe de Navigation Maritime SA, Renens

Appointed 3 January 2013

A Davies (Deputy Chairman)  
Shell International Limited, London

Appointed 9 April 2013

P Johnson  
BG Group plc, Reading

Resigned 17 April 2012

E C Rothwell  
Irish Continental Group plc, Dublin

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

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **DIRECTORS' REPORT**

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2013

### **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 2013, 974 ships, with a total value of \$20.2 billion, were entered in the Association. The corresponding figures for 20 February 2012 were 984 ships, with a total entered value of \$19.3 billion.

Entry of ships in the Association is recorded in several currencies, which have been converted into dollars at exchange rates applicable for the year and agreed with the Association's reinsuring underwriters. In the year under review, as in previous years, the Association's reinsurance was not subject to a deductible, but did include the market automatic termination of cover clause.

### **ARTICLES OF ASSOCIATION**

During the year, the Managers and the Directors reviewed and revised the Articles of Association in conjunction with the drafting of a new Management Agreement and to take account of changes made by the Companies Act 2006. The membership approved the new Articles of Association at an Extraordinary General Meeting on 8 January 2013.

### **ADDITIONAL PREMIUM AREAS**

As at 20 February 2013, 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

Eritrea (South of 15° N)

Gulf of Guinea but only in respect of the area enclosed by

On the northern side the coast of Benin and Nigeria,

On the western side a straight line from the border, on the coast of Benin and Togo position Latitude 3° North, Longitude 1° 38'E,

On the southern side a straight line from there to position Latitude 3° North, Longitude 8° East,

On the eastern side a straight line from there to Latitude 4° North, Longitude 8° 31' East and then from there to the border, on the coast, of Nigeria and Cameroon,

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**DIRECTORS' REPORT (continued)**

**ADDITIONAL PREMIUM AREAS (continued)**

Libya  
Nigeria  
Somalia

**Indonesia / Malaysia**

Balikpapan (South East Borneo)  
North East Coast of Borneo, between and including Kudat and Tarakan  
Jakarta  
Sumatera (Sumatra), but only the North Eastern coast between 5° 40' N and 0° 48' N

**Middle East**

Iran  
Iraq  
Israel  
Lebanon  
Saudi Arabia  
Syria  
Yemen

**Philippines**

Sulu Archipelago including Jolo  
Information UKHO have provided parameters for the Sulu Archipelago as follows -

From Tanjung Bidadari (5° 49' 6N, 118° 21' 0E) along the east coast of Sabah to Tanjung Bagahak Light (4° 56' 5N, 118° 38' 3E), thence south-eastwards to Pulau Matakang Light (4° 34' 6N, 118° 57' 0E), thence southwards to position 3° 32' 0N, 118° 57' 0E, thence north-eastwards to position 5° 50' 0N, 122° 31' 0E, thence northwards to position 7° 06' 6N, 122° 31' 0E, thence westwards to Batorampon Point Light (7° 06' 6N, 121° 53' 8E), thence west-south-westwards to Tanjung Bidadari

**South America**

Venezuela

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**DIRECTORS' REPORT (continued)**

**ADDITIONAL PREMIUM AREAS (continued)**

**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 78° E, and

On the south, Latitude 12° S

excepting coastal waters of adjoining territories up to 12 nautical miles offshore unless otherwise provided, and subject to the conditions that the Entered Ship does not approach within 50 nautical miles of the north coast of Somalia, or within 100 nautical miles of the Socotra Archipelago, or within 200 nautical miles of the east coast of Somalia

**RESERVES**

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

With these factors in mind, and having reviewed the Association's reserving policy during the year, the Directors have decided the Association should maintain reserves within a range of between \$27.5 million and \$32.5 million. The Directors continue to monitor the Association's reserves and its financial results by reviewing management accounts at every meeting.

**RISK MANAGEMENT**

The Association is exposed to financial risk through its assets and liabilities. The most significant risks are market risk, credit risk, insurance risk and reinsurance risk. The Association has policies and procedures in place to manage these risks.

Market risk is the risk of changes in the financial markets affecting the value of the Association's investments. It is managed by the Association's investment policy, which is monitored by means of reports from the Investment Managers to the Directors at each Board meeting.

Credit risk is the risk of losses caused by other parties failing, in whole or in part, to meet obligations to the Association. Debtor exposure is mitigated because it is widely spread across the membership. This exposure is monitored by means of reports from the Managers to the Board. It is the Association's policy not to confirm renewal to any Member with amounts overdue and no return of call is made to a Member if there are sums overdue to the Association from that Member.

## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **DIRECTORS' REPORT (continued)**

#### **RISK MANAGEMENT (continued)**

Insurance risk is the risk associated with claims on the Association. Exposure is primarily mitigated by a strategy of risk transfer through the Association's reinsurance programme. The Association's underwriting policy, which the Board reviews at least once a year, is also used to manage this risk.

Reinsurance risk is the risk of the Association's reinsurers being unable to meet their obligations. This risk is mitigated by placing reinsurance with reinsurers that have an AM Best and/or Standard & Poors rating of A- or better and, in addition, by ensuring that 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.

During the year, the Directors reviewed the Association's risk management policies and procedures in the context of Solvency II preparations. They reviewed and amended the Association's Outsourcing Policy and Management Agreement, its Business Risk Assessment and Risk Management Framework, as well as its Internal Control Framework.

#### **DIRECTORS**

The Directors of the Association are shown on page 8.

Mr C D Wannell resigned with effect from 20 February 2013, having served as a Director since 2000 and as Chairman since 2010. The Directors wish to thank him for his service and for his contribution to the Association as Chairman and as a Director.

Mr P Johnson resigned on 9 April 2012 after two years as a Director. The Directors wish to thank him for his contribution to the Association.

Mr E Andre was appointed a Director of the Association with effect from 3 January 2013.

At the Annual General Meeting on 15 October 2013, Messrs A Davies and H Scheffer will retire by rotation in accordance with Article 9.1 of the Articles of Association and, being eligible, both will put themselves forward for reappointment. Mr E Andre, as required by Article 9.5, having been appointed a Director during the year and, being eligible, will put himself forward for reappointment.

#### **DIRECTORS' MEETINGS**

During the 2012 Policy Year, the Directors held four formal meetings: one in April 2012, two in October 2012 and one in January 2013. The second meeting on October 2012 was devoted exclusively to preparations for Solvency II. They also maintained contact with the Managers between meetings, in order to fulfil the general and specific responsibilities

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**DIRECTORS' REPORT (continued)**

**DIRECTORS' MEETINGS (continued)**

entrusted to them by the Members under the Association's Articles and Rules. The items considered and reported at the three meetings included:

**Audit and regulatory matters:** the auditors' report on the 2012 financial statements, the annual return to the Financial Services Authority for the year ending 20 February 2012, an internal audit report on corporate governance, planning for internal audits in 2013.

**Directors:** election of the Chairman and Deputy Chairman, the composition of the Board, appointment of new Directors, Directors' and Officers' liability insurance.

**Finances:** the financial statements for the year ended 20 February 2012, reserves policy and financial planning, investments and investment strategy.

**Underwriting:** the closure of the 2012 Policy Year and return of call for the 2012 Policy Year, renewal report, reinsurance arrangements for the 2013 Policy Year, rates and terms to Members for the 2013 Policy Year.

**Solvency II:** on-going review of the implementation plans, review of the Outsourcing Policy and Management Agreement, Business Risk Assessment and Risk Management Framework and Internal Control Framework.

**Other Matters:** Market reports, Additional Premium Areas, piracy in the Gulf of Aden and Indian Ocean, piracy deterrents and avoidance measures, provision of certificates of financial responsibility under the 2002 Protocol to the Athens Convention and the EU Passenger Liability Regulation, financial crime risk management plans, Management Agreements and Management Fee for 2013-2016.

**AUDITORS**

The Association's auditors, Moore Stephens LLP, have indicated their willingness to continue in office and a resolution will be proposed for their reappointment in accordance with Section 489 of the Companies Act 2006 at the Annual General Meeting to be held on 15 October 2013.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**DIRECTORS' REPORT (continued)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Directors' 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the Directors is aware at the time the report is approved

- there is no relevant audit information of which the Association's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.



T Stage  
Chairman  
9 April 2013



## THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNITEDKINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED**

We have audited the financial statements of The United Kingdom Mutual War Risks Association Limited for the year ended 20 February 2013 which are set out on pages 17 to 33. The financial reporting framework that has been applied in their preparation is in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company'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 company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNITED  
KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED (Continued)**

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 20 February 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

**Simon Gallagher, *Senior Statutory Auditor***

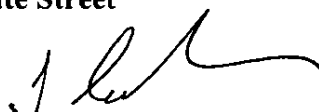
**For and on behalf of Moore Stephens LLP, Statutory Auditor**

**150 Aldersgate Street**

**London**

**EC1A 4AB**

16 April 2013



The maintenance and integrity of The United Kingdom Mutual War Risks Association Limited website is the responsibility of the Directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**INCOME AND EXPENDITURE ACCOUNT**  
**for the year ended 20 February 2013**

<b>TECHNICAL ACCOUNT</b>	Note	2013 \$'000	2012 \$'000
Gross premium written	3	4,631	6,145
Outward reinsurance premium	4	<u>(3,597)</u>	<u>(4,852)</u>
		1,034	1,293
Other technical income	5	221	422
Claims incurred, net of reinsurance			
- Claims paid			
Gross claims paid	15	(53)	(34)
Reinsurer's share		53	34
- Change in the provision for claims			
Gross outstanding claims	15	(70)	(20)
Reinsurers' share	15	<u>70</u>	<u>20</u>
		-	-
Acquisition costs	6	(559)	(492)
Administration costs	7	<u>(978)</u>	<u>(906)</u>
Balance of the technical account		(282)	317
<b>NON TECHNICAL ACCOUNT</b>			
Balance of the technical account		(282)	317
Investment and other income	8	451	371
Gains on the realisation of investments		114	139
Unrealised gains/ (losses) on investments		900	(131)
Surplus on ordinary activities before tax		<u>1,183</u>	<u>696</u>
Tax on ordinary activities	12(a)	(56)	(39)
<b>Surplus on ordinary activities after tax</b>		<u>1,127</u>	<u>657</u>
Income and Expenditure account brought forward		30,206	29,549
Income and Expenditure account carried forward		<u>31,333</u>	<u>30,206</u>

All activities represent continuing activities. There are no recognised gains or losses other than the surplus for the year. The notes on pages 20 to 33 form an integral part of these Financial Statements.

Company No 127262

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

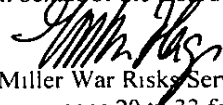

**BALANCE SHEET**

**As at 20 February 2013**


	Note	2013 \$'000	2012 \$'000
<b>ASSETS</b>			
<b>Other Financial Investments</b>	9	30,933	29,569
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding	15	-	70
<b>Debtors</b>			
Debtors arising out of direct insurance operations			
- Policy holders		419	437
Debtors arising out of reinsurance operations		222	345
<b>Cash at bank and in hand</b>	14	734	1,143
<b>Prepayments</b>	10	10	10
<b>Accrued Interest</b> – interest earned but not yet received on fixed interest securities		69	87
		<u>32,387</u>	<u>31,661</u>
<b>LIABILITIES</b>			
<b>Reserves</b>			
Income and Expenditure		31,333	30,206
<b>Technical Provisions</b>			
Claims outstanding	15	-	70
<b>Creditors</b>			
Creditors arising out of direct insurance operations		188	86
Creditors arising out of reinsurance operations		764	1,203
Other creditors including taxation	12(b)	60	43
		<u>1,012</u>	<u>1,293</u>
<b>Accruals</b>	11	42	53
		<u>32,387</u>	<u>31,661</u>

These Financial Statements were approved by the Board of Directors on 9 April 2013

Signed on behalf of the Board of Directors

Director  **T STACE** Director  **A. J. DAVIES**  
 Thomas Miller War Risks Services Limited as Managers

The notes on pages 20 to 33 form an integral part of these Financial Statements

 **J AULLEY**

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**CASH FLOW STATEMENT**  
**For the year ended 20 February 2013**

	Note	2013 \$'000	2012 \$'000
<b>Net cash flow from operating activities</b>			
Premium received		4,717	6,117
Reinsurance premium		(4,035)	(4,444)
Other operating income received		337	260
Claims (paid)/recovered		7	(2)
Other operating cash payments		(1,515)	(1,386)
	14	(489)	545

**CASH FLOW STATEMENT**

Net cash outflow from operating activities

**Returns on Investment**

Interest received		486	243
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**Taxation**

Taxation paid	12(c)	(39)	(485)
(Decrease)/Increase in cash		<u>(42)</u>	<u>303</u>

**CASH FLOWS WERE INVESTED AS FOLLOWS:**

(Decrease)/Increase in cash	14	(409)	512
<b>Net portfolio investment</b>			
Purchase/ (Disposal) of fixed interest securities		521	7,155
(Disposal)/Purchase of other debt securities		97	(4,597)
Disposal of units in unit trusts		(241)	(585)
(Decrease)/Increase in UCITS		(10)	(2,969)
Increase in absolute return funds		-	3,000
(Decrease)/Increase in cash on deposit		-	(2,213)
	14	<u>367</u>	<u>(209)</u>
<b>Total</b>		<u>(42)</u>	<u>303</u>

The notes on pages 19 to 32 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 and Wales as a company limited by guarantee and not having a share capital

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

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

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

The financial statements are prepared in accordance with the provisions of Section 396 to the Companies Act 2006 and Schedule 3 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulation 2008 (SI 2008/410), and in compliance with applicable accounting standards and the ABI SORP Accounting for Insurance Business issued in December 2005 (as amended in December 2006)

##### **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 US dollar exchange rate. The resultant difference is included in the non-technical account

Revenue transactions are translated into US dollars 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

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THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**2. Accounting policies (continued)**

**d) Contributions and premiums**

Contributions and premiums less returns are included in the Income and Expenditure Account when the policies incept, provisions are made for the return of contributions and premiums to Members

Advance Contributions are the amounts payable in each policy year by the insured owners calculated on a percentage basis of the total sums insured

Additional Premiums are those amounts payable as a result of certain areas being specified as Additional Premium Areas in accordance with the Rules of the Association and are charged if the insured ships should enter those Areas. Additional premiums are recognised on a notification basis. Premiums for a period of cover after the Year End are treated as unearned.

**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 judgment of the Managers of the likely final cost of individual cases based on current information. The individual estimates are reviewed regularly.

**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.

**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.

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THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**2. Accounting policies (continued)**

**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 bid 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 US Dollar investments, the market value is translated at the closing rate of exchange at the date of the Balance Sheet. The cost of non US Dollar investments is translated into US Dollar 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) Deferred Taxation**

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the Balance Sheet date, unless such provision is not permitted by Financial Reporting Standard 19.



THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**3. Contributions and premiums**

Contributions and premium have been charged as follows

	2013 \$'000	2012 \$'000
Advance contributions		
UK flagged vessels advance contributions	<u>1,950</u>	<u>1,636</u>
Total advance contributions	<u>1,950</u>	<u>1,636</u>
Return of Call		
UK flagged vessels advance contributions	<u>(201)</u>	<u>(127)</u>
Total return of call	<u>(201)</u>	<u>(127)</u>
Additional premiums	<u>2,882</u>	<u>4,636</u>
Total additional premiums	<u>2,882</u>	<u>4,636</u>
Total net contributions and premiums	<u>4,631</u>	<u>6,145</u>

At the Directors' meeting held on 8 January 2013, it was decided that a 15% return of call should be made to Members of the Advance Contributions due in respect of the 2012 policy year (2011 policy year 10%) upon the closing of that year

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**4. Reinsurance premiums**

	2013 \$'000	2012 \$'000
Advance contributions for UK flagged vessels	1,095	934
Total reinsurance for advance contributions	<u>1,095</u>	<u>934</u>
Additional premiums	2,502	3,918
Total reinsurance for additional premiums	<u>2,502</u>	<u>3,918</u>
Total reinsurance premium	<u><u>3,597</u></u>	<u><u>4,852</u></u>

(a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is fully reinsured (except as described in (b) without deductible up to US\$ 950 million each vessel. In addition, the separate limit provided to Members in respect of Rule 2C risks of US\$500 million is also fully reinsured on the same contract (the "main reinsurance contract"). The sums insured in other currencies are determined by reference to the rates of exchange published in the Financial Times on 20 February 2013. There is a separate provision in the main reinsurance contract which, should the Association issue them to Members, will fully reinsure the exposure resulting from "Blue Cards" as required by the 2002 Protocol to the Athens Convention and/or the EU Passenger Liability Regulation (EC) No 392/2009. This exposure is Special Drawing Rights (SDR) 340 million any one vessel.

(b) For claims arising in the Gulf of Aden / Indian Ocean Additional Premium area, a US\$ 250,000 each and every loss deductible is applicable on the main reinsurance contract. This is fully reinsured by means of a separate reinsurance contract, again without deductible, up to two limits of US\$ 250,000 per loss. This cover is then automatically reinstated upon payment of a further premium for a further aggregate limit of US\$ 500,000. Should this cover be exhausted by claims, the cover can be reinstated, at the Association's option, for a further, final limit of US\$ 500,000 in the aggregate.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**5. Other technical income**

	2013 \$'000	2012 \$'000
Commission income	<u>221</u>	<u>422</u>

Additional Premiums are paid at 67.5% net of original reinsurance rates agreed for individual breaches. A return is made to the Association to reduce the proportion payable to 62.5% net at expiry.

**6. Acquisition costs**

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

	2013 \$'000	2012 \$'000
Brokerage on premiums	390	327
Management fee allocated to acquisition costs	<u>169</u>	<u>165</u>
	<u>559</u>	<u>492</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**7. Administration costs**

	2013 \$'000	2012 \$'000
Managers' cost (Note 16)	678	664
Directors' fees	33	36
Directors' travel and meeting expenses	31	27
Directors' and Officers' insurance	14	14
Managers' travel and meeting expenses	9	9
Auditors' Remuneration	25	35
Auditors' Remuneration for other services	-	21
Other professional fees	107	11
Printing and Stationery (including Rule Books)	28	32
Communications – telephones, facsimile and postage	11	10
Bank charges	5	8
Sundry Expenses	2	1
	<u>943</u>	<u>868</u>
Investment Management Fees	35	38
	<u>978</u>	<u>906</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

Auditors' Remuneration for other services includes the fee in relation to a regulatory presentation to the Board

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)**

**8. Investments and other income**

	2013 \$'000	2012 \$'000
Distributions from unit trusts	137	123
Interest on bonds and Government stocks	313	289
Interest on bank deposits	5	6
	<u>455</u>	<u>418</u>
Exchange gains/loss arising during the year	(4)	(47)
	<u>451</u>	<u>371</u>

The Year End rates of exchange equivalent to \$1 were

	2013	2012
US\$	1 0000	1 0000
Euro	0 7479	0 7537
Sterling	0 6535	0 6302
Chinese Yuan Renminbi	6 2374	6 2941
Japanese Yen	93 6870	79 4712
Australian Dollar	0 9718	0 9280
Norwegian Kroner	5 5531	5 6614

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**9. Other financial investments**

	<b>Market Value 2013 \$'000</b>	<b>Market Value 2012 \$'000</b>	<b>Cost 2013 \$'000</b>	<b>Cost 2012 \$'000</b>
Fixed interest securities	12,870	12,481	12,980	12,469
Corporate bonds	3,732	3,692	3,892	3,834
Forward Contracts	-	17	-	-
Equities	9,451	8,617	7,337	7,471
UCITS	1,715	2,026	1,715	2,026
Absolute return funds	3,051	2,923	3,018	3,018
Cash on deposit	114	(187)	114	(187)
	<u>30,933</u>	<u>29,569</u>	<u>29,056</u>	<u>28,631</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.

**10. Prepayments**

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Prepayments	<u>10</u>	<u>10</u>

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

**11. Accruals**

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Audit, accountancy and taxation	25	26
Accrued expenses	<u>17</u>	<u>27</u>
	<u>42</u>	<u>53</u>

Accrued expenses relates to investment management fees and charitable donations.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**12. Taxation**

a) The charge in the Income and Expenditure Account represents

	2013 \$'000	2012 \$'000
Corporation tax at 20%		
Current year	<u>56</u>	<u>39</u>

The current taxation charge for the year is different from the standard rate of corporation tax in the UK (26%) The differences are explained below

	2013 \$'000	2012 \$'000
Surplus on ordinary activities before taxation	<u>1,183</u>	<u>696</u>
Theoretical tax at UK Corporation Tax rate	237	139
Effects of		
- Balance on the technical account not taxable	49	(71)
- UK dividends not taxable	(28)	(25)
- Unrealised gain on equities not taxable	(193)	-
- Indexation allowance on realised gains	(9)	(9)
- Unrealised loss on equities not allowable	-	5
Actual current tax charge	<u>56</u>	<u>39</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**12. Taxation (continued)**

<b>b) Creditors</b>	2013 \$'000	2012 \$'000
Corporation tax payable	56	39
Other taxation and social security	<u>4</u>	<u>4</u>
	<u>60</u>	<u>43</u>
 <b>c) Tax Cash Flow</b>	 2013 \$'000	 2012 \$'000
Taxation paid – per cash flow statement	<u>39</u>	<u>485</u>



THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**14. Cash Flow Statement**

**Movement in cash, deposits and investments**

	As at 20/02/2012	Cash flow	Changes to market value, currencies and other changes	As at 20/02/2013
	\$'000	\$'000	\$'000	\$'000
Cash at bank	1,143	(409)	-	734
Fixed interest securities	12,481	521	(132)	12,870
Other debt securities	3,692	97	(57)	3,732
Forward Contracts	17	-	(17)	-
Equities	8,617	(241)	1075	9,451
UCITS	2,026	(311)	-	1,715
Absolute return funds	2,923	-	128	3,051
Cash on deposit/settlement account	(187)	301	-	114
	29,569	367	997	30,933

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**14. Cash flow statement (continued)**

**Reconciliation of the balance on the technical account to the net cash inflow/  
(outflow) from operating activities**

	2013 \$'000	2012 \$'000
Balance on the technical account	(282)	317
(Decrease) in technical provision for claims	(70)	(20)
Decrease in reinsurers' share of technical provision for claims	70	20
Increase in debtors	141	(202)
Decrease in creditors	(349)	430
Change in Prepayments	1	-
Net cash inflow from operating activities	<u>(489)</u>	<u>545</u>

**15. Claims**

<b>Technical account</b>	2013 \$'000	2012 \$'000
<u>Claims paid</u>		
Claims paid to policyholders	53	34
Reinsurance recoveries received	<u>(7)</u>	<u>(2)</u>
	<u>46</u>	<u>32</u>
<u>Change in the provisions for claims</u>		
- Movement in the year		
Gross claims	70	20
Reinsurance	<u>(70)</u>	<u>(20)</u>
	<u>-</u>	<u>-</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

**15. Claims (continued)**

<b>Balance sheet</b>	2013 \$'000	2012 \$'000
<u>Technical provisions</u>		
- Claims outstanding		
Gross amount due to the policy holder	<u>-</u>	<u>70</u>
<u>Reinsurers' share of technical provisions</u>		
- Claims outstanding	<u>-</u>	<u>70</u>

**16. Managers' remuneration**

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

	2013 \$'000	2012 \$'000
Acquisition costs	169	165
Administration	<u>678</u>	<u>664</u>
	<u>847</u>	<u>829</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 the only transactions between the Association and the Members.

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

**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 AND OFFICERS**

**MANAGERS**

THOMAS MILLER WAR RISKS SERVICES LIMITED

**DIRECTORS**

J A Culley  
K Halpenny  
R A A Harnal  
A E Ward

**SECRETARY**

K Halpenny

**REGISTERED OFFICE**

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**REGISTERED NUMBER**

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