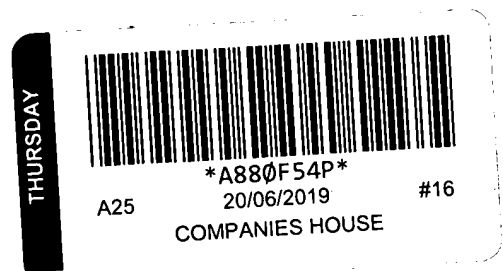


**THE UNITED KINGDOM MUTUAL WAR RISKS
ASSOCIATION LIMITED**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 20 FEBRUARY 2019



Registered Number: 127262

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

DIRECTORS

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

R.D. Burmeister
James Fisher Everard Limited, London

Resigned 18 January 2019

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

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

E.Verbeeck
Euronav, Belgium

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

CHAIRMAN'S STATEMENT

2018 was another year in which the Association consolidated and further strengthened its position in the war risks marketplace. Following the insurance industry's losses in 2017 as a result of several natural catastrophes, premium rates for war risks insurance appear to have stabilised after many years of decreases. The Association's 2019 reinsurance renewal was concluded on as expiry terms as in 2018 and a degree of underwriting discipline appears to be a defining characteristic of the market, not least due to the increased level of scrutiny that Lloyd's is imposing on underperforming syndicates. Whilst shipowners will always prefer lower premium rates, there is also a need for a certain premium base to exist in order to be able to pay claims which, for war risks, can be complex and expensive. Thankfully, the Association experienced another year of benign claims experience in 2018, although the threats to ships and their crews in areas such as Libya, Yemen and West Africa remain ever present. The Association's continued excellent loss record enables it to obtain the most competitive reinsurance terms possible which, in turn, are passed on to Members by way of competitive rates.

These rates, coupled with the Association's industry leading breadth of cover, which includes an annual aggregate limit of US\$50m where the Association's Computer Virus exclusion clause does not apply (which itself is less restrictive than the normal market wording) and the level of specialist service and expertise provided by the Managers has been instrumental in encouraging new Members to join the Association in recent years. 2018 saw an increase in Capital Entered to US\$23.72bn at the year-end.

I was pleased to learn recently that another large Member will join the Association early in the forthcoming Policy Year, which will increase the Capital Entered by a further 20%. I would like to thank both the Association's longstanding and new Members for their support of UK War Risks. My fellow Directors and the Managers are committed to providing the best possible terms and levels of service available, in what remains a highly competitive market.

Although the investment markets suffered a downturn in the equity markets in the last quarter of 2018 there was a recovery made prior to year end. 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, and are protected by a comprehensive reinsurance programme. The Board reviews the level of reserves regularly and I am pleased to be able to advise that a Discretionary Continuity Credit was made to Members who renewed their entries for the 2019 Policy Year. Individual Members' returns were calculated by reference to their Capital Entered and are being made to reward loyalty as well as to emphasise the Board's commitment to provide all Members, both large and small, with the best possible terms. The Board continues to review the level of reserves at Directors' meetings and the Association's financial performance and regulatory requirements.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

CHAIRMAN'S STATEMENT (continued)

Finally, it is regrettable to note that arrangements for the UK to leave the EU have not yet been finalised. The Managers have made extensive preparations for a worst case scenario by establishing an EU base that will be able to continue to service EU based Members in the event that the UK loses its passporting rights for financial services. Although this will involve additional cost, this will be absorbed by the Association with no impact on premium rates. I would like to thank the Managers for their extensive preparatory efforts in this regard as well as their efforts in increasing the membership base which will benefit all Members, both now and in the future.



E Andre
Chairman
22 May 2019

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

STRATEGIC REPORT

INTERNATIONAL

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

The table below compares the number of ships entered in the Association and the total entered value over the last three years.

20 February	2019	2018	2017
Number of ships	824	636	575
Total entered value	\$23.72bn	\$18.96bn	\$16.59bn

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 2018 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, Yemen presented an increased risk to ship safety and Libya remains an area of concern. Instances of kidnappings of crew in West Africa increased in 2018, fortunately none involving the Association.

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

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

STRATEGIC REPORT (continued)

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 lower rates of Advance Contributions which were maintained at 2018 levels for the 2019 Policy Year having reduced by 10% for 2018 Policy Year.

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. There were no new formal claims notified during the year ended 20 February 2019.

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.

The Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During the year ended 20 February 2019, 88% (2018: 89%) 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 UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

STRATEGIC REPORT (continued)

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 UK P & I NV 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 2019, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 17 October 2019.

The table compares the key financial information from the 2019 financial year with the corresponding figures from the 2018 financial year.

Year ended 20 February	2019	2018
All figures in US\$ 000		
Gross premium written	2,254	2,030
Discretionary Continuity Credit	(998)	-
Outward reinsurance premium	(1,167)	(918)
Other technical income	190	139
Acquisition and administration costs	<u>(1,579)</u>	<u>(1,476)</u>
Operating (deficit) on the technical account	(1,300)	(225)
Net investment income after tax	<u>870</u>	<u>2,701</u>
Surplus/(deficit) for the year after tax	<u>(430)</u>	<u>2,476</u>
Reserves brought forward	<u>37,615</u>	<u>35,139</u>
Reserves carried forward	<u>37,185</u>	<u>37,615</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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 increased due to new members and our existing membership expanding their fleets by either acquisition or by organic growth and increased commitment to the Association.

This year the Directors decided to return US\$0.998m by a way of Discretionary Continuity Premiums 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's the Association aim is to maintain its free reserves between US\$25m to US\$40m. In addition the maintaining of strong reserves is essential for it to maintain its A- rating from A M Best.

The deficit of US\$0.430m resulted in free reserves of US\$37.185m which is in line with the Associations target range.

INVESTMENTS

The Association's primary investment objective is to conserve and accumulate capital in order to cover future obligations and support the business objectives. The secondary objective is to earn greater returns than the benchmarks set out in the Investment Mandate.

The overall return for the year ended 20 February 2019 was 2.98% (2018: 8.53%)

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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 Thursday 17 October 2019 at 10.00am for the following purposes:

To receive the Report of the Directors and the Financial Statements for the year ended 20 February 2019, 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 line.

K. Halpenny
Company Secretary
22 May 2019

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 2019. The Directors of the Association are shown on page 2.

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 2019, 824 ships, with a total value of US\$23.72bn, were entered in the Association. The corresponding figures for 20 February 2018 were 636 ships, with a total entered value of US\$18.96bn.

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 did include the market automatic termination of cover clause.

FUTURE DEVELOPMENTS

The future development of the Association is as follows:

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

DIRECTORS' REPORT (continued)

- 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 2019, the Additional Premium Areas pursuant to Rule 19 were as set out below, the ports, places, countries, zones and areas listed including all harbours, offshore installations and terminals, unless otherwise stated. The headings in bold are included for reference only.

Africa

Benin

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

- On the northern side the coast of Benin, Togo and Nigeria;
- On the western side a straight line from the border, on the coast of Togo and Ghana to position Latitude 3° North, Longitude 1° 10' East;
- On the southern side a straight line from there to position Latitude 3° North, Longitude 8° East;
- On the eastern side a straight line from there to Latitude 4° North, Longitude 8° 31' East and then from there to the border, on the coast of Nigeria and Cameroon.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

DIRECTORS' REPORT (continued)

ADDITIONAL PREMIUM AREAS (continued)

Africa (continued)

Libya
Nigeria
Somalia
Togo

Middle East

Iran
Iraq
Israel
Lebanon
Saudi Arabia
Syria
Yemen

South America

Venezuela

Southern Red Sea / Gulf of Aden / Gulf of Oman / Arabian Sea / Indian Ocean Transits

The waters enclosed by the following boundaries:

- On the north-west, by the Red Sea, south of Latitude 15° N;
- On the west of the Gulf of Oman by Longitude 58° E;
- On the east, Longitude 65° E; and
- On the south, Latitude 12° S

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

DIRECTORS' REPORT (continued)

RESERVES

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

The Association's reserves at the year-end were US\$37m. This fits within the parameters of the Association's policy of holding reserves between US\$25m and US\$40m. The upper reserving limit was increased at the October 2017 Directors' Meeting, from US\$35m to US\$40m.

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.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS

The Directors of the Association are shown on page 2.

DIRECTORS' MEETINGS

During the 2018 Policy Year, the Directors held three formal meetings: one in May 2018, one in October 2018 and one in January 2019.

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 2018, approved the year-end Report and Financial Statements, approved the SFCR to the Prudential Regulatory Authority (PRA) for the year ending 20 February 2018.

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 2017 Policy Year, received renewal report, approved reinsurance arrangements for the 2018 Policy Year; and rates and terms to Members for the 2018 Policy Year.

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 club policies. Approved the Own Risk Solvency Assessment (ORSA) report to be sent to the regulators. Considering Brexit related issues.

Business Development: Reviewed rolling business plans, new business opportunities.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

DIRECTORS' REPORT (continued)

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.

AUDITORS

On 1 February 2019 Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP has resigned as auditor and the directors have appointed BDO LLP as auditor in their place. BDO 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 17 October 2019.

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 UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

DIRECTORS' REPORT (continued)

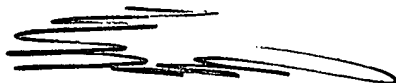
STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

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
22 May 2019

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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

Our Opinion

We have audited the financial statements of The United Kingdom Mutual War Risks Association Limited ("the Association") for the year ended 20 February 2019 which comprise the Income and Expenditure Account and Movement in Reserves, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 20 February 2019 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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)**

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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)**

Key audit matter	How our audit addressed the key audit matter
<p>Additional Premiums and Reinsurance Additional Premiums</p> <ul style="list-style-type: none"> • As shown in note 5, \$1.4m of additional premium has been recognised in the financial statements (2018: \$1.2m). As shown note 6, \$0.9m of additional reinsurance premium (2018: \$0.6m) have been recognised in the financial statements. • The Association charges members additional premiums based on the location of members' vessels. Members notify the Association when they are in additional premium areas and the managers process and recognise additional premiums accordingly. • There is a risk that there are delays in the notification and processing of additional premium which leads to the incomplete recognition of revenue. • For any additional premiums charged to members, the Association incurs additional reinsurance premium. Therefore, if additional premiums are incomplete, there is a risk that additional reinsurance premium will also be incomplete. 	<ul style="list-style-type: none"> • Performed substantive testing over a sample of additional premiums recorded after the year end to ensure they were recognised in the correct period, agreeing the additional premium period to debit notes. • Performed substantive testing over additional premiums and additional reinsurance premiums recorded in the year, agreeing the premium to the debit notes. • Performed analytical procedures over additional premium recognised on a member basis, with analytical review of the reinsurance additional premiums recognised in relation to additional premium.

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)**

Key audit matter	How our audit addressed the key audit matter
<p>Recognition of the Return of Surplus' to Members</p> <ul style="list-style-type: none">• The Association intended to make a distribution of the Association's free reserves to members.• There is a risk that the return of surplus would not be returned in the correct accounting period and not disclosed correctly within the financial statements.• Consideration was deemed required over the appropriateness of the recognition of the return to members on the performance of the year ended 20 February 2019 in relation to the expectation provided to members prior to the year end.• Consideration was required over the appropriate disclosure within the financial statements in line with FRS 102.	<ul style="list-style-type: none">• Reviewed communication made to members to assess whether a commitment to pay a return call was established before the year end.• Reviewed the accounting treatment and disclosure of the return within the financial statements for compliance with FRS 102.• Reviewed board minutes and other documentation to ensure that the return call had been calculated accurately based on agreed terms detailed within a circular sent to Members of the Association.

Our application of materiality

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

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)

Based on our professional judgement, we determined materiality for the financial statements as whole to be \$740,000 (2018: \$370,000). The principal determinant in this assessment was the Association's net assets, which we consider to be the most relevant benchmark, as this determines the availability of reserves to provide distributions or need to make supplementary calls to cover shortfalls in reserves, which are key performance measures of the Members. Our materiality represents approximately 2% of net assets. A lower level of materiality has been used at 1% of net assets (2018: N/A), for specified areas of the financial statements given the disparity between the significance of the balance sheet values and the income and expenditure account.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at 70% (2018: 70%) of each materiality level set out above due to the low inherent risk of the entity.

We have agreed with the Board of Directors that we shall report to them any misstatements in excess of \$37,000 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of our audit

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

Effectiveness of the audit on the identification of possible fraud

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

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)**

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

We identified areas of laws and regulations that could reasonably be expected to have a material impact on the financial statements from our sector experience and through discussion with the Directors and other management, as required by the auditing standards.

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

Other information

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

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

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)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 17, 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.

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)**

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to address

Moore Stephens LLP were appointed as initial auditors by the Directors on 3 December 2008, and following the recommendation of the Directors, we were appointed to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. On 1 February 2019 Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP has resigned as auditor and the Directors have appointed BDO LLP as auditor in their place. The period of total uninterrupted engagement is 10 years,

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

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

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)**

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.



Alexander Barnes
Senior Statutory Auditor

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

22nd May 2019

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

**INCOME AND EXPENDITURE ACCOUNT AND
MOVEMENT IN RESERVES
for the year ended 20 February 2019**

TECHNICAL ACCOUNT	Note	2019	2018
		US\$'000	US\$'000
Gross premium written	5	2,254	2,030
Discretionary Continuity Credit		(998)	-
		<u>1,256</u>	<u>2,030</u>
Outward reinsurance premium	6	(1,167)	(918)
		89	1,112
Other technical income	7	190	139
Acquisition costs	8	(395)	(357)
Administration costs	9	(1,184)	(1,119)
Balance of the technical account		<u>(1,300)</u>	<u>(225)</u>
NON TECHNICAL ACCOUNT			
Balance of the technical account		(1,300)	(225)
Investment and other income	10	586	506
Gains / (losses) on the realisation of investments		798	1,129
Unrealised gains/ (losses) on investments		(282)	1,293
(Deficit)/ Surplus on ordinary activities before tax		<u>(198)</u>	<u>2,703</u>
Tax on ordinary activities	11	(232)	(227)
(Deficit) / Surplus on ordinary activities after tax		<u>(430)</u>	<u>2,476</u>
Reserves brought forward		37,615	35,139
Reserves carried forward		<u>37,185</u>	<u>37,615</u>

All activities represent continuing activities. There is no other comprehensive income. The notes on pages 29 to 54 form an integral part of these Financial Statements.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

BALANCE SHEET

Company No. 127262

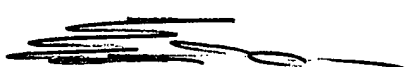
As at 20 February 2019

	Note	2019 US\$'000	2018 US\$'000
ASSETS			
Other Financial Investments	12	37,797	37,828
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		259	169
Debtors arising out of reinsurance operations		248	146
		<u>507</u>	<u>315</u>
Cash at bank and in hand		1,053	307
Prepayments	13	52	54
Accrued Interest		101	71
		<u>39,510</u>	<u>38,575</u>
RESERVES and LIABILITIES			
Reserves			
Free reserves		37,185	37,615
Creditors			
Creditors arising out of direct insurance operations		247	182
Creditors arising out of reinsurance operations		527	469
Other creditors including taxation		488	221
		<u>1,262</u>	<u>872</u>
Accruals	14	65	87
Discretionary Continuity Credit		998	-
		<u>39,510</u>	<u>38,575</u>

These Financial Statements were approved by the Board of Directors on 22 May 2019.

Signed on behalf of the Board of Directors:

E. ANDRE



Chairman

R.A.A. Harnal



Chief Financial Officer

The notes on pages 29 to 54 form an integral part of these Financial Statements.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

CASH FLOW STATEMENT

For the year ended 20 February 2019

	Note	2019 US\$'000	2018 US\$'000
Operating activities			
Premiums received		2,140	2,334
Reinsurance premium paid		(1,110)	(911)
Other operating income received		225	234
Acquisition costs paid		(395)	(357)
Administration costs paid		(895)	(1,224)
Taxation paid		(209)	(178)
Net cash provided/(used) by operating activities		(244)	(102)
Cash flows from investment activities			
Purchase of investments		(14,859)	(18,056)
Sale of investments		15,294	17,678
Interest received		(92)	225
Dividends on investments in equities		647	267
Net cash flow from investment activities		990	114
Net increase/(decrease) in cash and cash equivalents		746	13
Cash and cash equivalents at the beginning of the year		307	294
Cash and cash equivalents at the end of the year		1,053	307

The notes on pages 29 to 54 form an integral part of these Financial Statements.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

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 54.

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

2 Accounting policies

2.1 Statement of compliance and basis of preparation

The Financial Statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006.

The Financial Statements have been prepared under the provisions of the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups.

The Financial Statements have been prepared on the historical cost basis, except for other financial investments and derivative financial instruments which are presented at fair value.

The functional currency of the Association is US dollars because that is the currency of the primary economic environment in which the Association operates. The Financial Statements are also presented in US dollars.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

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.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.5 Reinsurance recoveries

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

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

2.6 Reinsurance premiums

Reinsurance premiums payable by the Association are charged to the Technical Account on an accruals basis and, to the Policy Year to which they apply.

2.7 Financial instruments

Financial instruments are recognised on the Association's balance sheet when the Association becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price and are classified as either 'basic' or 'other' in accordance with Chapter 11 of FRS 102. Subsequent to initial recognition, they are measured as set out below.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when the Association has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.13 Taxation (continued)

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.

3. Critical accounting estimates

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following critical accounting estimates are made by the Association.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3.1 Fair value estimations

In accordance with section 34 of FRS 102, as a financial institution, the Association applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value hierarchy:

The Financial Statements present an analysis of the level in the fair value hierarchy into which the fair value measurements are categorised.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (that is, prices) or indirectly (that is, derived from prices)

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

The below table presents the Association's assets measured at fair value by level of the fair value hierarchy:

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3.1 Fair value estimations (continued)

The below table presents the Association's assets measured at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
As at 20 February 2018	US\$'000	US\$'000	US\$'000	US\$'000
Assets				
Government Fixed interest securities	-	7,753	-	7,753
Fixed income corporate bonds	3,456	-	-	3,456
Equity & Alternatives	18,261	3,448		21,709
UCITS	6,992	-	-	6,992
Settlement account	(2,082)	-	-	(2,082)
	<u>26,627</u>	<u>11,201</u>	<u>-</u>	<u>37,828</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Management of Risk

The Association is governed by the Board of Directors which drives decision making within the Association from Board level through to operational decision making within the Managers. The Board considers the type and scale of risk that the Association is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

The Association is focussed on the identification and management of potential risks. This covers all aspects of risk management including that to which the Association is exposed through its core activity as a provider of insurance services, and the broader range of risks. The key areas of risk impairing the Association can be classified as follows:

- 4.1 **Insurance risk** – incorporating underwriting and reinsurance risk
- 4.2. **Market risk** – incorporating investment risk, interest rate risk and currency rate risk
- 4.3. **Credit risk** – being the risk that a counterparty is unable to pay amounts in full when due
- 4.4. **Liquidity risk** – being the risk that cash may not be available to pay obligations as they fall due
- 4.5. **Operational risk** – being the risk of failure of internal processes or controls
- 4.6 **Limitation of the sensitivity analyses**
- 4.7 **Capital Management**

4.1 Insurance Risk

The Association's exposure to insurance risk is initiated by the underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on the Association from a Member. The risk is managed by the underwriting process, acquisition of reinsurance cover, and the management of claims costs.

Underwriting process

The Association has an underwriting policy which is approved by the Board annually which manages the underwriting risk. The policy sets out the processes of how the risk is managed.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4.1 Insurance Risk (continued)

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 2019, 88% of the contract was insured at Lloyd's, with the balance being reinsured by insurance companies in the UK and overseas.

The risk of the Association's reinsurers being unable to meet their obligations is presented in section 4.3 Credit Risk.

The Association considers that the liability for insurance claims recognised 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.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4.2 Market Risk (continued)

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4.2 Market Risk (continued)

Foreign currency risk management (continued)

As at 20 February 2018	US Dollar	Sterling	Euro	Total
	\$'000	\$'000	\$'000	\$'000
Fixed interest-Government	7,753	-	-	7,753
Fixed interest-Corporate	3,456	-	-	3,456
Equity & Alternatives	21,709	-	-	21,709
UCITS	6,992	-	-	6,992
Settlement account	(2,082)	-	-	(2,082)
Debtors	302	-	13	315
Cash and cash equivalents	156	24	127	307
Other	125	-	-	125
	<u>38,411</u>	<u>24</u>	<u>140</u>	<u>38,575</u>

Foreign currency sensitivity analysis

As at 20 February 2019 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\$0.045m (2018: US\$0.008m) .

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\$0.135m fall in the value of the Association's investments (2018: US\$0.113m).

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4.2 Market Risk (continued)

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 (2018: 52%)

A 10% increase in equity values would be estimated to have increased the surplus before tax at the year-end by US\$2.087m (2018: US\$1.960m). A 10% fall in equity values would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

4.3 Credit Risk

Counterparty risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Association.

The key areas where the Association is exposed to credit risk are:

Amounts recoverable from reinsurance contracts;
Amounts due from Members; and
Counterparty risk with respect to cash and investments

Amounts recoverable on reinsurance contracts

The Association is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Board considers the financial position of significant counterparties. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to "A" at the time the contract is made and no single reinsurer carries more than a 10% line. The terms of the reinsurance contract give the Association the right to remove any reinsurer whose rating falls below A- at any time during the year. The Board reviews reinsurance annually before renewal.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4.3 Credit Risk (continued)

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.

The Investment Mandate sets out the investment limits which the fund manager has to adhere to. All fixed interest and floating rates investments have to be A-rated, with the exception of its holding of a perpetual subordinated capital bond which is not A- rated. No rating is required for equity and alternative holdings.

Counterparty risk with respect to cash and investments

The credit risk for equities and alternatives is managed by the limits set by the Directors in the Investment Mandate, as well as the monthly monitoring of their performance by the Investment Manager.

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

As at 20 February 2019	AAA/AA	A	BBB or less or not rated	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Fixed interest-Government	6,823	-	-	6,823
Fixed interest-Corporate	496	4,253	1,987	6,736
Equity & Alternatives	-	-	20,873	20,873
UCITS	3,053	-	-	3,053
Settlement account	312	-	-	312
Debtors	-	-	507	507
Cash and cash equivalents	-	1,053	-	1,053
Other	-	-	153	153
	<u>10,684</u>	<u>5,306</u>	<u>23,520</u>	<u>39,510</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4.3 Credit Risk (continued)

As at 20 February 2018	AAA/AA	A	BBB or less or not rated	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Fixed interest-Government	7,753	-	-	7,753
Fixed interest-Corporate	1,483	501	1,472	3,456
Equity & Alternatives	-	-	21,709	21,709
UCITS	6,992	-	-	6,992
Settlement account	(2,082)	-	-	(2,082)
Debtors	-	-	315	315
Cash and cash equivalents	-	307	-	307
Other	-	-	125	125
	<u>14,146</u>	<u>808</u>	<u>23,621</u>	<u>38,575</u>

There were no past due or impaired assets at 20 February 2019 (2018: 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 2019, the Association's short term deposits (including cash and UCITS) amounted to US\$4.419m (2018: US\$7.326m).

The Association's total liabilities at 20 February 2019, were US\$2.325m (2018: US\$1.308m) all due within 12 months (2018: 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 UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4.4 Liquidity Risk (continued)

The tables below provide a maturity analysis of the Association's financial assets:

As at 20 February 2019	Short term assets	Within 1 year	Within 2-5 years	Over 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Fixed interest-Government	-	-	6,823	-	6,823
Fixed interest-Corporate	-	-	6,236	500	6,736
Equity & Alternatives	20,873	-	-	-	20,873
UCITS	3,053	-	-	-	3,053
Settlement account	312	-	-	-	312
Debtors	507	-	-	-	507
Cash and cash equivalents	1,053	-	-	-	1,053
Other	153	-	-	-	153
	25,951	-	13,059	500	39,510

As at 20 February 2018	Short term assets	Within 1 year	Within 2-5 years	Over 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Fixed interest-Government	-	-	7,753	-	7,753
Fixed interest-Corporate	-	-	2,955	501	3,456
Equity & Alternatives	21,709	-	-	-	21,709
UCITS	6,992	-	-	-	6,992
Settlement account	(2,082)	-	-	-	(2,082)
Debtors	315	-	-	-	315
Cash and cash equivalents	307	-	-	-	307
Other	125	-	-	-	125
	27,366	-	10,708	501	38,575

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 maintains capital, comprising policyholders' funds (surplus and reserves), consistent with the Association's risk appetite and the regulatory requirements.

The Association's objective is to keep its regulatory capital reserves between US\$25m to US\$40m to ensure it is able to continue as a going concern, meet regulatory requirements and maintain an "A-" rating with A. M. Best.

The Association continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the Solvency II regime the Association is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 per cent confidence level of solvency. Throughout the period the Association complied with the regulators' capital requirements and the requirements in the other countries in which it operates.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4.7 Capital management (continued)

At the year end the Association's Regulatory Capital Reserves were US\$37.4m (2018: US\$37.8m). This exceeded the Solvency Capital Requirement (SCR) of US\$15.5m by US\$21.9m

5 Contributions and premiums

Contributions and premium have been charged as follows:

	2019 US\$'000	2018 US\$'000
Advance contributions	885	852
Total advance contributions	885	852
Additional premiums	1,369	1,178
Total contributions and premiums	<u>2,254</u>	<u>2,030</u>

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

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Reinsurance premiums

	2019 US\$'000	2018 US\$'000
Advance contributions	<u>289</u>	<u>337</u>
Total reinsurance for advance contributions	289	337
Additional premiums	<u>878</u>	<u>581</u>
Total reinsurance for additional premiums	878	581
Total reinsurance premium	<u><u>1,167</u></u>	<u><u>918</u></u>

- (a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is, for the 2018 Policy Year, fully reinsured (except as described below) without deductible up to US\$ 1 billion each vessel. In addition, the separate limit provided to Members in respect of Rule 2C risks or US\$500 million is also fully reinsured on the same contract. (The "main reinsurance contract"). The sums insured in other currencies (excluding Special Drawing Rights ("SDR")) are determined by reference to the rates of exchange published in the Financial Times on 20 February 2019.

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 2018, a deductible of US\$250,000 on each and every loss is applicable on the main reinsurance contract.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Other technical income

	2019 US \$'000	2018 US \$'000
Commission income	<u>190</u>	<u>139</u>

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.

	2019 US\$'000	2018 US\$'000
Brokerage on premiums	157	147
Management fee allocated to acquisition costs (note 17)	238	210
	<u>395</u>	<u>357</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Administration costs

	2019 US\$'000	2018 US\$'000
Managers' costs (Note 15)	951	840
Directors' fees	21	23
Directors' travel and meeting expenses	16	18
Directors' and Officers' insurance	12	10
Managers' travel and meeting expenses	38	39
Auditors' Remuneration	53	98
Other professional fees	66	64
Printing and Stationery	12	13
Communications – telephones and postage	3	4
Bank charges	4	3
Sundry Expenses	3	3
	<u>1,179</u>	<u>1,115</u>
Investment Management Fees	5	4
	<u>1,184</u>	<u>1,119</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.

The Association has no employees.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Investments and other income

	2019 US\$'000	2018 US\$'000
Dividends from equities	271	265
Interest on bonds and government stocks	237	183
Interest on bank deposits	79	56
	<u>587</u>	<u>504</u>
Exchange gain/ (loss) arising during the year	<u>(1)</u>	<u>2</u>
	<u>586</u>	<u>506</u>

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

	2019	2018
US Dollar	1.0000	1.0000
Euro	0.8811	0.8103
Sterling	0.7655	0.7140
Chinese Yuan Renminbi	6.7244	6.3441
Japanese Yen	110.765	107.115
Australian Dollar	1.3955	1.2659
Norwegian Krone	8.5958	7.8401

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Taxation

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

	2019 US\$'000	2018 US\$'000
Corporation tax at 19% (2018: 19.11%)		
Current year	232	227
Actual tax per profit and loss	<u>232</u>	<u>227</u>

The current taxation charge for the year is detailed below.

	2019 US\$'000	2018 US\$'000
Surplus/ (deficit) on ordinary activities before taxation	(198)	2,703
Theoretical tax at UK Corporation Tax rate of 19% (2018: 19.11%)	(38)	517
Effects of:		
- Balance on the technical account not taxable	249	44
UK dividends not taxable	(59)	(50)
- Unrealised gain on equities not taxable	109	(233)
- Indexation allowance on realised gains	(35)	(51)
-Adjustment to tax charge in respect of prior periods	6	-
	<u>232</u>	<u>227</u>
Actual current tax charge	<u>232</u>	<u>227</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Taxation (continued)

b) Creditors	2019 US\$'000	2018 US\$'000
Corporation tax payable	232	209
	<u>232</u>	<u>209</u>

12 Other financial investments

	Market Value 2019 US\$'000	Market Value 2018 US\$'000	Cost 2019 US\$'000	Cost 2018 US\$'000
Government Fixed interest securities	6,823	7,753	6,849	7,911
Fixed Income Corporate bonds	6,736	3,456	6,744	3,512
Equity & Alternatives	20,873	21,709	15,708	16,081
UCITS	3,365	6,992	3,188	6,992
Settlement Account	-	(2,082)	-	144
	<u>37,797</u>	<u>37,828</u>	<u>32,489</u>	<u>34,640</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)

13 Prepayments

	2019 US\$'000	2018 US\$'000
Prepayments	<u>52</u>	<u>54</u>

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

14 Accruals

	2019 US\$'000	2018 US\$'000
Audit, accountancy and taxation	57	50
Accrued expenses	<u>8</u>	<u>37</u>
	<u>65</u>	<u>87</u>

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:

	2019 US\$'000	2018 US\$'000
Acquisition costs	238	210
Administration	<u>951</u>	<u>840</u>
	<u>1,189</u>	<u>1,050</u>

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

THE UNITED KINGDOM MUTUAL WAR RISKS ASSOCIATION LIMITED

MANAGERS AND OFFICERS

MANAGERS

THOMAS MILLER WAR RISKS SERVICES LIMITED

DIRECTORS OF THOMAS MILLER WAR RISKS SERVICES LIMITED

K. Halpenny
R.A.A. Harnal
R. Lingard
A.E. Ward
N.J. Whitear

SECRETARY

K. Halpenny

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REGISTERED NUMBER

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