

UK WAR RISKS 

Annual Report and Financial Statements

For the year ended 20 February 2024

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

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UK War Risks at a glance

Total Entered Value

\$26.71bn

Surplus for the Year

\$2.7m

Total Number of Ships Entered

 **715**

Investment Return

10.65%

Pirate Activity



Piracy and armed robbery against ships
January - June 2024

Types of vessels targeted

20 bulk carriers
17 other
15 tankers
8 container ships

Types of violence to crew

85 taken hostage
11 kidnapped
2 threatened

Types of attacks

46 vessels boarded
8 attempted attacks
4 hijacked
2 fired upon

(Source: ICC International Maritime Bureau)

A- Stable

A- Rating

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

End of Year Reserves

\$52m



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

Directors

Directors

[E. F. Andre \(Chair\)](#)
Suisse-Atlantique
Societe de Navigation Maritime SA, Renens

[A. Wingfield Digby](#)
Giles W Pritchard-Gordon & Co Ltd

[R.A.A. Harnal \(Chief Financial Officer\)](#)
Thomas Miller War Risks Services Limited

[P. Knight \(Chief Executive Officer\)](#)
Thomas Miller War Risks Services Limited

[J. Miles](#)
Grindrod Shipping Pte Ltd

[N.H.H. Smith](#)
Independent Non-Executive Director

[A. Staring](#)
Euronav

Appointed 17 October 2023
Resigned 31 December 2023

[E. Verbeek](#)
Independent Non-Executive Director

Chairman's Statement

I am delighted that the Club's War Cover is still one of the best in the market and gives our Members significant scope of coverage.



For 110 years, the UK War Risks Club has been protecting merchant shipping from marine war risks. This proud tradition continues and as at 20 February 2024, the Association insured 715 ships with a Total Entered Value of US\$ 26.71bn. Fortunately, during the year the Club did not have any reported major claims despite the considerable levels of risk in the Black Sea, and notably at the end of the year the Red Sea as well.

Financially, the Club remains well capitalised with its Solvency Capital Ratio above 200%. It has also maintained its A- (Stable) rating from AM BEST. During the year, the Directors were able to decide a Discretionary Continuity Credit of US\$2.9m for Members renewing ships in the 2024 Policy Year. The Club was also able to maintain the same Advance Contribution Rate for the 2024 year; the sixth consecutive year with no increase to Members.

At the 2023 renewal for the first time the Association had to accept a limit on the level of cover that it could offer for ships calling to Russia, Ukraine & Belarus. This had been driven by a drastic contraction of capacity in the treaty reinsurance market, largely due to the significant losses suffered in the aviation war market. Notwithstanding this loss of capacity, the Association has been able to offer continued cover for ships trading to these areas in compliance with EU, UK and US sanctions laws, with some of the highest limits available in the market for both War H&M and War P&I.

I am delighted that the Club's War Cover is still one of the best in the market and gives our Members significant scope of coverage; most notably the Detention cover and more recently the newly expanded War Loss of Hire offering.

The increasingly fast-moving and complex sanctions environment has proved challenging for the Association this year.

With the introduction of sanctions on Russia, the due diligence burden to ensure that the Association remains fully compliant has increased significantly. This, in addition to other sanctions developments such as Venezuela and maintaining our high level of service to Members, has been a key area of focus for the Association this year.

I am pleased to note that the Association was able to maintain its cover for cyber risks with US\$50m of annual aggregate cover across the Membership where the Computer Virus Exclusion Clause does not apply; a benefit to Members that is not widely available in today's market.

The geo-political landscape is fast moving, and even more so with the heightened environment following the Houthi attacks at the end of 2023 and subsequent actions in various parts of the world. War risks cover is now at the forefront of many Members' minds. UK War Risks is here to assist and we are closely monitoring the situation and providing on-going advice and support.

Members' needs are at the heart of all that we do and the Directors and I will continue to support Members with competitive premium rates, wide coverage, and a responsive service.

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

E Andre
Chairman
29 May 2024

Strategic Report

The Directors present their Strategic Report on the Association's for the year ended 20 February 2024.

International

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

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

The total entered value has decreased marginally by 0.6% because of withdrawal of some vessels following a restructuring of one of our Members. Since the year end the Association has admitted a new member who entered 118 ships with a total entered value of US\$4.425bn.

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

War Risks

War risks cover continues to be at the forefront of people's minds due to the current ongoing escalations. In particular the Red Sea and the Israel/ Iran situations.

The Red Sea remains volatile with the Houthi campaign beginning in November. The Houthi are to date still continuing to target vessels where they deem there is a link to Israel and also now UK and US. What is unclear is what criteria they are using to determine such links and as such, analysis is difficult on this matter.

Military support with the aim of protecting commercial shipping has been conducted by the US and UK supported by Australia, Bahrain, Canada, Denmark, the Netherlands and New Zealand, under Operation Prosperity Guardian. Whilst fairly successful the Houthi forces are continuing to select specific targets and the area remains uncertain.

On 13th April 2024, the container ship MSC ARIES was boarded and seized by Iranian forces from the Islamic Revolutionary Guard Corps (IRGC). The vessel was on route to India from UAE. The same day Iran launched a large-scale drone and missile attack against Israel (in retaliation to the Israel attacks on the Iran consulate in Syria on the 1st April). This resulted in a retaliation from Israel (attack on Isfahan) on the 19th April, where reports are suggesting limited damage was caused.

Iran has suggested that it may also close the Strait of Hormuz however, from our intelligence we feel this is unlikely to take place at present. It is felt that Iran is whilst retaliating, unwilling to truly escalate the situation. The detention of the MSC ARIES is also likely to not be related to the missile attacks but more in keeping with the long standing policy of Iran of detaining vessels to deal with disputes (previously mainly due to US and EU sanctions against oil exports) and their willingness to escalate against Israel-linked shipping.

In addition to the above, the Humanitarian corridor for Ukraine is still in place and at present limited instances have occurred. It is of course being closely monitored by the Managers and our intelligence support.

Finally, a new AP area has been added by way of Guyana. However, this is only for calls to offshore installations in the Guyanese EEZ beyond territorial waters, and with regard to Venezuela, the GL44 was extended by way of GL44a, so that "wind-down" transactions pursuant to GL44 can take place by 31 May.

Fortunately, we are pleased to report that there have been no incidents that have involved members of the UK War Risks Club. However, should one occur the members would benefit from the Associations wide coverage and first class claims response.

Year ended 20 February, 2024

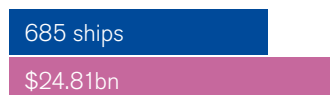
2024



2023



2022



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 very competitive rates of Advance Contributions which were maintained at 2022 levels for the 2023 Policy Year. This is the sixth year Advance Contributions have remained unchanged.

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

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

The Association welcomes feedback from Members and brokers as to the level of cover and service it provides. Feedback gives us the opportunity to respond to Members' specific needs and further improve the service provided by the Association.

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls.

All policies are subject to Board approval and ongoing review by management, and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the Association and the compliance team and finance department take on an important oversight role in this regard. The Association operates a risk transfer strategy to provide protection against claims and so safeguard its reserves. During the year ended 20 February 2024, 54% (2023: 56%) of the reinsurance contract was placed at Lloyd's, with the balance being placed with insurance companies in the UK and overseas. The Notes to the Financial Statements include details of the Association's reinsurance programme.

The principal risk of the Association is its reliance on reinsurance 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.

Finances

The figures in the table below are taken from the Financial Statements for the year ended 20 February 2024, which will be submitted to the membership for approval at the Annual General Meeting, which will be held on 22 October 2024.

The table compares the key financial information from the 2024 financial year with the corresponding figures from the 2023 financial year.

Year ended 20 February	2024 US\$ '000	2023 US\$ '000
Gross premium written	15,576	20,889
Discretionary Continuity Credit	(2,830)	(2,613)
Outward reinsurance premium	(7,433)	(10,423)
Change in net provision for unearned premium	(265)	86
Other technical income	2,092	2,569
Acquisition and administration costs	(8,359)	(10,262)
Operating (deficit)/surplus on the technical account	(1,219)	74
Investment income after tax	3,935	611
Surplus for the year after tax	2,716	685
Reserves brought forward	50,036	49,351
Reserves carried forward	52,752	50,036

The Discretionary Continuity Credit takes into account adjustment made in respect of members who did not renew in the previous policy year.

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 decreased from last year primarily due to reduction of rates charged for voyages in the additional premium areas offset by the addition of new Members and increased ship values.

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

This year the Directors decided to return US\$2.900m by a way of Discretionary Continuity Credit to Members renewing their entries to reward their loyalty as the Association continues to benefit from having strong capital reserves.

Reserves

The Association's objective is to maintain its regulatory capital resources (own funds) in line with its risk appetite statement over the cycle and with regulatory requirements.

The table below compares regulatory capital resources against its capital requirements.

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 2024 was 10.65% (2023: 1.20%)

The positive return for the year was primarily driven by increases in its equity and fixed income portfolio offset by a small decrease in its alternatives portfolio.

	2024 US\$ '000
SCR ratio	212%
SCR	26,488
Eligible capital	56,092
Excess / (shortfall)	29,604
MCR Ratio	847%
MCR	6,622
Eligible capital	56,092
Excess / (shortfall)	49,470
Tier 1 Basic own funds	56,092

Strategic Report (continued)

Companies Act Section 172(1)

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

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

1. The likely consequences of any long term decision

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

2. The interests of the Association's employees

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

3. The need to foster the Association's business relationships with suppliers, customers and others

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

The Association outsources management of the day-to-day operations to Thomas Miller War Risks Services Limited. In this regard, the Board ensures that any business conducted with Thomas Miller War Risks Services Limited is done so on appropriate terms.

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

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

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

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

The Association considers the best interests of its Members as a priority. This includes returning excess funds to its Members by way of discretionary continuity credits, and acting as a sounding board for industry issues by participating and presenting in conferences on the benefits of having the appropriate War Risks insurance cover.

5. The desirability of the Association maintaining a reputation for high standards of business conduct

The Board has a conduct risk policy that applies to both the Board and the Managers and ensures that the Association does the right things for its customers whilst keeping them, and the integrity of the markets in which they operate at the heart of everything that the Association does.

6. The need to act fairly between Members of the Association

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

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

Notice of Meeting

The Annual General Meeting of the Members of United Kingdom Mutual War Risks Association Limited will be held in the offices of the Association, 90 Fenchurch Street, London on Tuesday 22 October 2024 at 09.30am for the following purposes:

To receive the Report of the Annual Financial Statements for the year ended 20 February 2024, and if they are approved, to adopt them.

To elect Directors.

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

To consider, and if thought appropriate, adopt amendments to the Association's Rules and Articles of Association.

By Order of the Board.

K. Halpenny
Company Secretary
29 May 2024

Directors' Report

The Directors are pleased to present their Report and the Association's Financial Statements for the year ended 20 February 2024. The Directors of the Association are shown on page 4.

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 2024, 715 ships with a total value of US\$26.71bn were entered in the Association.

Entry of ships in the Association is recorded in several currencies, which have been converted into dollars at exchange rates applicable for the year and agreed with the Association's reinsuring underwriters. In the year under review, as in previous years, the Association's reinsurance was not subject to a deductible, except for claims arising in the Indian Ocean/Arabian Sea /Gulf of Aden / Gulf of Oman and Southern Red Additional Premium areas, when a deductible of US\$250,000 on each and every loss is applicable.

The reinsurance contract includes the market automatic termination of cover clause, which states that "Whether or not such notice of cancellation has been given cover hereunder in respect of the risks of war etc. shall TERMINATE AUTOMATICALLY upon the outbreak of war (whether there be a declaration of war or not) between any of the following:

United Kingdom, United States of America, France, the Russian Federation, the People's Republic of China,"

Future developments

The future development of the Association is as follows:

- The Association aims to sustain its financial position by maintaining its capital resources and free reserves in line with its risk appetite policy and to satisfy regulatory and solvency requirements as well as maintenance of the Association's financial strength rating of A- (AM Best).

- The Association expects its membership growth to be drawn primarily from non-UK domiciled Members who now provide the greater part of its entered fleet
- The Association's aim is to differentiate its service offering from the (commercial) market.

This will be achieved by a sound underwriting policy and its continued financial strength. The Association can confidently aim for a high rate of retention among the existing membership and growth of new and organic business year on year, developing the quality and breadth of its membership without materially eroding its financial position or overall loss ratio.

The Association also aims to enhance its market share through being the leading provider of claims expertise in the war risks insurance market and being recognised for defending Members' interests fairly, consistently and robustly including its crisis response capabilities.

Service is a core value to the Association's growth plan and is founded on providing sound 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.

Directors' Report (continued)

Financial instruments and risk management

Information on the use of financial instruments and its management of financial risk is disclosed in Note 2 and Note 4 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 2 and 4 to the financial statements.

The Association's Risk Management is governed by the Board of Directors, which drives decision making within the Association from Board level through to operational decision making within the Managers. The Board considers the type and scale of risk that the Association is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision-making. Information on how these risks are managed is disclosed in Note 4 to the Financial Statements.

Directors

The Directors of the Association are shown on page 4.

Directors' Meetings

During the 2023 Policy Year, the Directors held three formal meetings: one in May 2023, one in October 2023 and one in January 2024.

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 2023, approved the year-end Report and Financial Statements, approved the SFCR to the Prudential Regulatory Authority (PRA) for the year ended 20 February 2023.

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 2023 Policy Year, received renewal report, approved reinsurance arrangements for the 2024 Policy Year; and rates and terms to Members for the 2024 Policy Year.

Compliance and Regulatory: Received reports on Senior Insurance Managers Regime (SIMR), reviewed risk monitoring, the investment policy and mandate, agreed Directors' terms of reference and approved various of the Association's policies. Approved the Own Risk Solvency Assessment (ORSA) report to be sent to the regulators.

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

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

Any additional requirements of the Directors' report have been disclosed in the strategic report.

Directors' Report (continued)

Statement Of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report, the Strategic Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

E Andre

Chairman
29 May 2024

Independent Auditors' Report

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 20 February 2024 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.

We have audited the financial statements of United Kingdom Mutual War Risks Association Limited (the 'Association') for the year ended 20 February 2024 which comprise the income and expenditure account and movement in reserves, the balance sheet, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Board of Directors.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors in July 2008 to audit the financial statements for the year ending 20 February 2009 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 16 years, covering the year ended 20 February 2009 to 20 February 2024.

We remain independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Association.

Conclusions relating to going concern

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

- Review and challenge of the Association's current plans and budget forecasts, challenging growth assertions and checking that movements were in line with justifiable assumptions and movements. This was done through review of historic budgets against actual performance and knowledge of the Association and industry;
- Checked the basis of solvency projections for the next 12 months based on accounting principles, considering an appropriate mechanism for calculating solvency had been applied and there is sufficiency of assets to meet liabilities; and
- Challenge and discussion around the latest Own risk and Solvency Assessment provided by the Association. In addition, we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged the directors as to the future assumptions embedded within the model, through discussion and our knowledge of relevant factors affecting the industry and economy. We have also checked that the modelling used for solvency is in line with industry standards.

Independent Auditors' Report (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Overview

Key audit matters		
Additional Premiums and Reinsurance	2024 ✓	2023 ✓
Additional Premiums		
Materiality		
<i>Financial Statements as a whole:</i> \$1,055k (2023: \$1,000k) based on 2.0% of net assets (2023: 2.0% of net assets).		

An overview of the scope of the audit

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

Key audit matters

(see table 1 opposite, page 16)

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed

risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Our application of materiality (see table 2 opposite)

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as per the table on page 16.

Reporting threshold

We agreed with the Board of Directors that we would report to them all individual audit differences in excess of \$52,700 (2023: \$50,042). We also agreed to report differences overleaf this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditors' Report (continued)

Table 1

	Key audit matter	How the scope of our audit addressed the key audit matter
<p>Additional Premiums and Reinsurance Additional Premiums</p> <p>See note 5, 6 and accounting policy in note 2.2 and note 2.6</p>	<p>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.</p> <p>Due to the potential time difference between the receipt of notification from members of additional premiums, the date that the vessel travels through the war risk zone, and the recording of those premiums in the nominal ledger and underwriting system, there is a risk that the additional premium income has not been recorded in the correct period.</p> <p>As some additional premium income relates to voyages which occur over the year end there is a risk that unearned premium and associated deferred acquisition costs will not be accounted for appropriately.</p> <p>For any additional premiums charged to members, the Association incurs additional reinsurance premiums. Therefore, if additional premiums are incomplete, there is a risk that additional reinsurance premiums will also be incomplete, as shown in note 6.</p> <p>We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Association's results and hence a Key Audit Matter.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> On a sample basis, tested additional premiums and additional reinsurance premiums recorded in the year, agreeing the additional premium period and premium to the debit notes as proof of the final voyage taken by the insured. On a sample basis, tested additional premiums recorded after the year end to check they were recognised in the correct period, agreeing the additional premium period and premium recognised to debit notes as proof of the final voyage taken by the insured. Where additional premium income related to voyages occurring over the year end, we checked that additional premium that relates to a period of cover after the year has been appropriately treated as unearned by recalculating the unearned portion of the premium based on the dates in the debit notes. Assessed whether the additional reinsurance premium charged is appropriately in line with the additional gross premium and the terms of the reinsurance agreement by analysing the relationship between gross and reinsurance additional premium. <p>Key observations:</p> <ul style="list-style-type: none"> As a result of the procedures performed, we did not identify any matters to suggest that the additional premiums and reinsurance premiums have not been recognised appropriately.

Table 2

	Association's financial statements	
	2024 \$000's	2023 \$000's
Materiality	1,055	1,000
Basis for determining materiality	2.0% of Net Assets	2.0% of Net assets
Rationale for the benchmark applied	Net assets is considered to be an appropriate measure as it demonstrates the Association's financial strength which we consider to be the most relevant benchmark for a mutual insurer.	
Performance materiality	685	651
Basis for determining performance materiality	<p>65% of materiality 65% was reflective of our assessed risk of the financial statements containing misstatements after our assessment of the entity's overall control environment, and the likelihood and magnitude of misstatements based on past experience.</p>	<p>50% of materiality 50% was reflective of our assessed risk of the financial statements containing misstatements after our assessment of the entity's overall control environment, and the likelihood and magnitude of misstatements based on past experience.</p>

Independent Auditors' Report (continued)

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Independent Auditors' Report (continued)

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Non compliance with laws and regulations

- Our understanding of the Association and the industry in which it operates;
- Discussion with management and those charged with governance;
- Obtaining and understanding of the Association's policies and procedures regarding compliance with laws and regulations; and
- Inspecting Board minutes.

We considered the significant laws and regulations to be Prudential Regulatory Authority ('PRA') regulations, Financial Conduct Authority ('FCA') regulations, Financial Reporting Standards 102 and 103 applicable in the UK and Republic of Ireland, Company Law and the Bribery Act 2010.

The Association is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines and litigations.

Our procedures in response to the above included:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Review of minutes of board meetings throughout the period for any instances of non-compliance with laws and regulations;
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Review of correspondence with the PRA and FCA to identify any instances of non-compliance by the Association; and
- Review of the Own Risk and Solvency Assessment for compliance with the regulatory capital requirements.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Association's policies and procedures relating to:
- Detecting and responding to the risks of fraud; and Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

Independent Auditors' Report (continued)

Based on our risk assessment, we considered the areas most susceptible to fraud to be the recognition of additional premium income (refer to the key audit matters section above) and management override of controls;

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Substantive testing over additional premium and agreeing the additional premium period and premium debit notes as proof of the final voyage taken by the insured.

We also communicated relevant identified laws and regulations and identified fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

This report is made solely to the Association's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Thomas Reed

(Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
London, UK
29 May 2024

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

Accounts

Income and Expenditure account and movement in reserves for the year ended 20 February 2024

Technical Account	Notes	2024 US\$ '000	2023 US\$ '000
Gross premium written	5	15,576	20,889
Discretionary Continuity Credit		(2,830)	(2,613)
		12,746	18,276
Outward reinsurance premium	6	(7,433)	(10,423)
		5,313	7,853
Change in gross provision for unearned premium	5	(1,288)	2
Change in deferred acquisition costs for unearned premium	8	449	72
Change in provision for unearned premium, reinsurers share	6	574	(156)
Change in net provision for unearned premium		(265)	86
Earned premium net of reinsurance		5,048	7,767
Other technical income	7	2,092	2,569
Gross claims paid		(15)	-
Reinsurers' share of claims paid		15	-
Acquisition costs	8	(6,022)	(8,420)
Administration costs	9	(2,337)	(1,842)
Balance of the technical account		1,219	74

Accounts (continued)

Income and Expenditure account and movement
in reserves for the year ended 20 February 2024

Non Technical Account	Notes	2024 US\$ '000	2023 US\$ '000
Balance of the technical account		(1,219)	74
Investment and other income	10	1,035	757
Gains on the realisation of investments		1,158	120
Unrealised gains / (losses) on investments		2,901	(114)
		5,094	763
Surplus on ordinary activities before tax		3,875	837
Tax on ordinary activities	11	(1,159)	(152)
Surplus on ordinary activities after tax		2,716	685
Reserves brought forward		50,036	49,351
Reserves carried forward		52,752	50,036

All activities represent continuing activities. There is no other comprehensive income.
The notes on pages 24 to 39 form an integral part of these Financial Statements.

Company No. 127262

Accounts (continued)

Balance Sheet As at 20 February 2024

	Notes	2024 US\$ '000	2023 US\$ '000
Assets			
Other Financial Investments	12	53,353	48,426
Reinsurers share of technical provisions	6	1,829	1,255
Reinsurance share of claims outstanding		35	-
Debtors			
Debtors arising out of direct insurance operations			
- Policy holders		3,942	3,322
Debtors arising out of reinsurance operations		1,864	2,565
		5,806	5,887
Cash at bank and in hand		1,666	1,991
Prepayments	13	71	67
Accrued Interest		177	27
Deferred acquisition cost for unearned premium	8	1,194	745
		64,131	58,398
Reserves and Liabilities			
Reserves			
		52,752	50,036
Unearned premium	5	3,415	2,120
Claims outstanding		35	-
Creditors			
Creditors arising out of direct insurance operations			
		884	911
Creditors arising out of reinsurance operations			
		2,775	2,298
Other creditors including taxation	14	1,188	91
		4,847	3,300
Accruals	14	182	329
Discretionary Continuity Credit		2,900	2,613
		64,131	58,398

These Financial Statements were approved by the Board of Directors on 29 May 2024.

Signed on behalf of the Board of Directors:

Chairman: **E. André**

Chief Financial Officer: **R.A.A. Harnal**

The notes on pages 24 to 39 form an integral part of these Financial Statements..

Accounts (continued)

Cash Flow Statement For the year ended 20 February 2024

Notes	2024 US\$ '000	2023 US\$ '000
Operating activities		
Premiums received (net of brokerage)	9,594	13,018
Reinsurance premium received / (paid)	(6,957)	(10,363)
Other operating income received / (paid)	2,793	2,366
Acquisition costs received / (paid)	(235)	(207)
Administration costs received / (paid)	(2,941)	(3,335)
Discretionary Continuity Credit	(2,543)	(2,500)
Taxation received / (paid)	(62)	(2,082)
Net cash provided / (used) by operating activities	(351)	(3,103)
Cash flows from investment activities		
Purchase of investments	(21,637)	(19,276)
Sale of investments	20,778	21,464
Interest received / (paid)	382	298
Dividends on investments in equities	405	119
Net cash flow from investment activities	(72)	2,605
Net increase / (decrease) in cash and cash equivalents	(423)	(498)
Cash and cash equivalents at the beginning of the year	1,991	2,375
Foreign exchange movement on cash and cash equivalents	98	114
Cash and cash equivalents at the end of the year	1,666	1,991

The notes on pages 24 to 39 form an integral part of these 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 39.

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

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

2. Accounting policies

2.1 Statement of compliance and basis of preparation

The Financial Statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006. These policies have been consistently applied to each of the years presented, unless otherwise stated.

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.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue operations for at least twelve months from the date the financial statements are signed. For this reason, the going concern basis has been adopted in preparing the accounts.

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. They are based on the current policy year.

2.4 Claims

Where claims are incurred, legal costs and expenses covered by the Association are included. Claims incurred during the year are included whether paid, estimated or unreported.

The estimates for known outstanding claims are based on the best estimates and judgment of the Managers of the likely final cost of individual cases based on current information. The individual estimates are reviewed regularly.

2.5 Reinsurance recoveries

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

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

2.6 Reinsurance premiums

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

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

2.7 Financial instruments

Financial instruments are recognised on the Association's balance sheet when the Association becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price and are classified as either 'basic' or 'other' in accordance with Chapter 11 and Chapter 12 of FRS 102. Subsequent to initial recognition, they are measured as set out below.

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

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

2.8 Other financial Investments

The Association classifies its financial investments at fair value through profit or loss because they are managed and their performance is evaluated on a fair value basis.

Financial investments are recognised at trade date and subsequently measured at fair value. Fair values of financial investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions at an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The costs of financial investments denominated in currencies other than US dollars are translated into US dollars on the date of purchase. Any subsequent changes in value, whether arising from market value or exchange rate movements, are charged or credited to the Income and Expenditure Account in the period in which they occur.

Net gains or losses arising from changes in fair value of financial investments at fair value through profit or loss are presented in the Income and Expenditure Account within 'Unrealised gains/ (losses) on investments' in the period in which they arise.

2.9 Investment income

Investment return comprises dividend income from equities, income on fixed interest securities, interest on deposits and cash.

Dividends are recognised as income on the date the relevant securities are marked ex-dividend. Other investment income is recognised on an accruals basis.

2.10 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balance with banks, and investments in money market instruments which are readily convertible, being those with original maturities of three months or less. Cash and cash equivalents in foreign currency are translated based on the relevant exchange rates at the reporting date.

2.11 Foreign currencies

Items included in the Financial Statements are measured in US dollars. Transactions in foreign currencies have been translated into US dollars at the rate applicable for the month in which the transaction took place. At each reporting date monetary assets and liabilities that are denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the end of the reporting period. All exchange gains and losses, whether realised or unrealised, are included in foreign exchange gains and losses in the income and expenditure account.

2.12 Taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

2.12 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.

2.13 Deferred acquisition costs

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

2.14 Derivative financial instruments

The Association uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future operating expenses being payable in Sterling. The forward currency contracts taken out to hedge against the future management fee payments have been designated as fair Value hedges. As a result, both the fair value of the contracts and the corresponding change in the value of the hedged item are shown on the Statement of Financial Position, with the gain or loss shown in the Statement of Income and Expenditure. The fair values of various derivative instruments used for hedging purposes, and their associated unrecognised firm commitments, are disclosed in note 10. They are classified as Level 2 assets in the fair value hierarchy described in note 2.8.

3. Critical accounting estimates

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

4. Management of Risk

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

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

Insurance risk – incorporating underwriting and reinsurance risk

Market risk – incorporating investment risk, interest rate risk and currency rate risk

Credit risk – being the risk that a counterparty is unable to pay amounts in full when due

Liquidity risk – being the risk that cash may not be available to pay obligations as they fall due

Operational risk – being the risk of failure of internal processes or controls

4.1 Insurance Risk

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

Underwriting process

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

Underwriting authority is delegated to specific individuals who operate under set underwriting parameters and the on-going guidance and review of senior management. These parameters cover areas such as screening of potential new Members and risks to ensure that they fall within the Association's guidelines for acceptable risk.

Reinsurance

The Association operates a risk transfer strategy to provide protection against claims and so safeguard its insurance risks through acquisition of reinsurance cover for 100% of risks committed.

During the year ended 20 February 2024, 54% of the reinsurance contract was insured at Lloyd's, with the balance being reinsured by insurance companies in the UK and overseas.

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

The Association considers that the liability for insurance claims recognised is adequate as all claims are fully reinsured.

Accounts (continued)

Notes to the Financial Statements (continued)

4.2 Market Risk

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

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

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

Foreign currency risk management

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

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

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

As at 20 February 2024	US Dollar US\$ '000	Sterling US\$ '000	Euro US\$ '000	Total US\$ '000
Fixed interest-Government	12,119	-	-	12,119
Fixed interest-Corporate	2,258	-	-	2,258
Equity & Alternatives	23,574	-	-	23,574
UCITS	15,402	-	-	15,402
Reinsurance share of unearned premium	1,829	-	-	1,829
Deferred acquisition cost of unearned premium	1,194	-	-	1,194
Debtors	5,806	-	-	5,806
Cash and cash equivalents	1,616	10	40	1,666
Other	283	-	-	283
	64,081	10	40	64,131

As at 20 February 2023	US Dollar US\$ '000	Sterling US\$ '000	Euro US\$ '000	Total US\$ '000
Fixed interest-Government	11,534	-	-	11,534
Fixed interest-Corporate	2,265	-	-	2,265
Equity & Alternatives	26,456	-	-	26,456
UCITS	7,665	-	-	7,665
Settlement account	506	-	-	506
Reinsurance share of unearned premium	1,255	-	-	1,255
Deferred acquisition cost of unearned premium	745	-	-	745
Debtors	5,887	-	-	5,887
Cash and cash equivalents	1,919	2	70	1,991
Other	94	-	-	94
	58,326	2	70	58,398

Accounts (continued)

Notes to the Financial Statements (continued)

4.2 Market Risk (continued)

Foreign currency sensitivity analysis

As at 20 February 2024 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\$0.002m (2023: US\$0.003m).

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\$0.144m fall in the value of the Association's investments (2023: US\$0.138m).

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 44% of the investment portfolio (2023: 55%)

A 10% increase in equity values would be estimated to have increased the surplus before tax at the year-end by US\$2.354m (2023: US\$2.176m). A 10% fall in equity values would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

In accordance with section 34 of FRS 102, as a financial institution, the Association applies the requirements of FRS 102 Appendix 2 section 2 Fair Value Measurement. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value hierarchy:

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (that is, prices) or indirectly (that is, derived from prices)
- Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

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

As at 20 February 2024	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets				
Government Fixed interest securities	12,119	-	-	12,119
Fixed income corporate bonds	-	2,258	-	2,258
Equity & Alternatives	23,574	-	-	23,574
UCITS	15,052	350	-	15,402
	50,745	2,608	-	53,353

Accounts (continued)

Notes to the Financial Statements (continued)

4.2 Market Risk (continued)

As at 20 February 2023

	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets				
Government Fixed interest securities	11,534	-	-	11,534
Fixed income corporate bonds	-	2,265	-	2,265
Equity & Alternatives	26,456	-	-	26,456
UCITS	7,215	450	-	7,665
Settlement Account	506	-	-	506
	45,711	2,715	-	48,426

4.3 Credit Risk

Counterparty risk

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

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

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

Amounts recoverable on reinsurance contracts

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

Amounts due from Members

Amounts due from Members represents premium owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable. In addition, the Directors reserve the right to offset outstanding claims payments with outstanding debt unless there is a contractual arrangement that prevents such offsetting. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments

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

Accounts (continued)

Notes to the Financial Statements (continued)

4.3 Credit Risk (continued)

Counterparty risk with respect to cash and investments (continued)

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

As at 20 February 2024	AAA/AA US\$ '000	A US\$ '000	BBB or less or not rated US\$ '000	Total US\$ '000
Fixed interest-Government	12,119	-	-	12,119
Fixed interest-Corporate	2,258	-	-	2,258
Equity & Alternatives	-	-	23,574	23,574
UCITS	15,402	-	-	15,402
Reinsurance share of unearned premium	-	-	1,829	1,829
Deferred acquisition cost of unearned premium	-	-	1,194	1,194
Debtors	-	-	5,806	5,806
Cash and cash equivalents	-	-	1,666	1,666
Other	-	-	283	283
	29,779	-	34,352	64,131

As at 20 February 2023	AAA/AA US\$ '000	A US\$ '000	BBB or less or not rated US\$ '000	Total US\$ '000
Fixed interest-Government	11,534	-	-	11,534
Fixed interest-Corporate	-	2,265	-	2,265
Equity & Alternatives	-	-	26,456	26,456
UCITS	7,665	-	-	7,665
Settlement account	506	-	-	506
Reinsurance share of unearned premium	-	-	1,255	1,255
Deferred acquisition cost of unearned premium	-	-	745	745
Debtors	-	-	5,887	5,887
Cash and cash equivalents	-	-	1,991	1,991
Other	-	-	94	94
	19,705	2,265	36,428	58,398

There were no past due or impaired assets at 20 February 2024 (2023: Nil).

Accounts (continued)

Notes to the Financial Statements (continued)

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 2024, the Association's short term deposits (including cash and UCITs) amounted to US\$17.068m (2023: US\$10.162m).

The Association's total liabilities excluding the unearned premium at 20 February 2024, were US\$7.964m (2023: US\$6.269m) all due within 12 months (2023: all due within 12 months) from the balance sheet date. The Association has sufficient liquid assets to meet its liabilities as they fall due.

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

As at 20 February 2024	Short term assets US\$ '000	Within 1 year US\$ '000	2-5 years US\$ '000	Over 5 years US\$ '000	Total US\$ '000
Fixed interest-Government	-	1,014	10,898	207	12,119
Fixed interest-Corporate	-	-	2,258	-	2,258
Equity & Alternatives	23,574	-	-	-	23,574
UCITS	15,402	-	-	-	15,402
Reinsurance share of unearned premium	1,829	-	-	-	1,829
Deferred acquisition cost of unearned premium	1,194	-	-	-	1,194
Debtors	5,806	-	-	-	5,806
Cash and cash equivalents	1,666	-	-	-	1,666
Other	283	-	-	-	283
	49,754	1,014	13,156	207	64,131

As at 20 February 2023	Short term assets US\$ '000	Within 1 year US\$ '000	2-5 years US\$ '000	Over 5 years US\$ '000	Total US\$ '000
Fixed interest-Government	-	5,457	5,864	213	11,534
Fixed interest-Corporate	-	-	2,265	-	2,265
Equity & Alternatives	26,456	-	-	-	26,456
UCITS	7,665	-	-	-	7,665
Settlement account	506	-	-	-	506
Reinsurance share of unearned premium	1,255	-	-	-	1,255
Deferred acquisition cost of unearned premium	745	-	-	-	745
Debtors	5,887	-	-	-	5,887
Cash and cash equivalents	1,991	-	-	-	1,991
Other	94	-	-	-	94
	44,599	5,457	8,129	213	58,398

Accounts (continued)

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's objective is to maintain its regulatory capital resources (own funds) in line with its risk appetite statement over the cycle and with regulatory requirements.

The table below compares regulatory capital resources against its capital requirements.

	2024 US\$ '000	2023 US\$ '000
SCR ratio	212%	197%
SCR	26,488	27,120
Eligible capital	56,092	53,046
Excess / (shortfall)	29,604	25,926
MCR ratio	847%	782%
MCR	6,622	6,780
Eligible capital	56,092	53,046
Excess / (shortfall)	49,470	46,266
Tier 1 Basic own funds	56,092	53,046

The Capital Management Policy is reviewed annually.

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

At the year end the Association's Regulatory Capital Reserves were US\$56.092m (2024:US\$53.046m). This exceeded the Solvency Capital Requirement (SCR) of US\$26.488m by US\$29.604m.

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.

Accounts (continued)

Notes to the Financial Statements (continued)

5. Contributions and premiums

Contributions and premium have been charged as follows:

	2024 US\$ '000	2023 US\$ '000
Advance contributions	1,342	1,239
Additional premiums	14,234	19,650
Total net contributions and premiums	15,576	20,889

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

Unearned premium reserve:

	2024 US\$ '000	2023 US\$ '000
Unearned provision brought forward	2,120	2,118
Movement in the year	1,295	2
Unearned provision carried forward	3,415	2,120

6. Reinsurance premiums

	2024 US\$ '000	2023 US\$ '000
Advance contributions	495	453
Total reinsurance for advance contributions	495	453
Additional premiums	6,938	9,971
Total reinsurance for additional premiums	6,938	9,971
Total reinsurance premium	7,433	10,423

Reinsurers' share of unearned Premium

	2024 US\$ '000	2023 US\$ '000
Reinsurers' share of unearned provision brought forward	1,255	1,411
Movement in the year	574	(156)
Reinsurers' share of unearned provision carried forward	1,829	1,255

Accounts (continued)

Notes to the Financial Statements (continued)

6. Reinsurance premiums (continued)

- a) The Association is protected against the incidence of claims by reinsurance contracts and the Association is, for the 2023 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 2024.

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 2023, a deductible of US\$250,000 on each and every loss is applicable on the main reinsurance contract.

7. Other technical income

	2024 US\$ '000	2023 US\$ '000
Commission income	2,092	2,569

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.

	2024 US\$ '000	2023 US\$ '000
Brokerage on premiums	5,596	8,075
Management fee allocated to acquisition costs	15 426	345
	6,022	8,420

Deferred acquisition costs

	2024 US\$ '000	2023 US\$ '000
Deferred acquisition costs brought forward	745	673
Movement in the year	449	72
Deferred acquisition costs carried forward	1,194	745

Accounts (continued)

Notes to the Financial Statements (continued)

9. Administration costs

		2024 US\$ '000	2023 US\$ '000
Managers' costs	15	1,704	1,381
Directors' fees		132	52
Directors' travel and meeting expenses		31	16
Directors' and Officers' insurance		37	32
Managers' travel and meeting expenses		26	5
Auditors' Remuneration		112	104
Other professional fees		200	138
Printing and Stationery		7	6
Communications – telephones and postage		2	4
Bank charges		3	3
Charity Donations		50	79
Sundry Expenses		27	10
		2,331	1,830
Investment Management Fees		6	12
		2,337	1,842

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.

Accounts (continued)

Notes to the Financial Statements (continued)

10. Investments and other income

	2024 US\$ '000	2023 US\$ '000
Dividends from equities	405	119
Interest on bonds and government stocks	510	287
Interest on bank deposits	22	7
	937	413
Exchange gain / (loss) arising during the year	98	344
	1,035	757

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

	2024	2023
US Dollar	1.0000	1.0000
Euro	0.9239	0.9357
Sterling	0.7898	0.8313
Chinese Yuan Renminbi	7.1987	6.8554
Japanese Yen	149.7801	134.0544
Australian Dollar	1.5225	1.4459
Norwegian Krone	10.4715	10.2396

11. Taxation

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

	2024 US\$ '000	2023 US\$ '000
Corporation tax at 19% (2022: 19%)		
Current year	132	91
Deferred Tax	1,027	61
Actual tax per profit and loss	1,159	152

Accounts (continued)

Notes to the Financial Statements (continued)

11. Taxation (continued)

The current taxation charge for the year is detailed below.

	2024 US\$ '000	2023 US\$ '000
Surplus / (deficit) on ordinary activities before taxation	3,875	841
Theoretical tax at UK Corporation Tax rate of 19% (2022: 19%)	944	160
Effects of:		
- Balance on the technical account not taxable	265	(63)
- Expenses not deductible / (taxable)	(75)	49
- UK dividends not taxable	-	(3)
Re-measurement of deferred tax for changes in the tax rates	26	9
Adjustment to prior period	(1)	-
	1,159	152

12. Other financial investments

	Market Value 2024 US\$ '000	Market Value 2023 US\$ '000	Cost 2024 US\$ '000	Cost 2023 US\$ '000
Government Fixed interest securities	12,119	11,534	12,570	12,463
Fixed Income Corporate bonds	2,258	2,265	2,334	2,334
Equity & Alternatives	23,574	26,456	19,317	25,089
UCITS	15,402	8,171	15,425	7,918
	53,353	48,426	49,646	47,804

All investment in unit trusts is in authorised unit trusts. Debt securities and other fixed income securities are all listed on a recognised stock exchange.

13. Prepayments

	2024 US\$ '000	2023 US\$ '000
Prepayments	71	67

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

Accounts (continued)

Notes to the Financial Statements (continued)

14. Other Creditors including taxation and accruals

	2024 US\$ '000	2023 US\$ '000
Cash settlement Investment portfolio	(8)	(18)
Repayment of Brokerage Expenses	-	(11)
Corporation Tax	132	83
Deferred Tax	1,064	37
	1,188	91
Audit, accountancy and taxation	112	104
Accrued expenses	70	225
	182	329

Accrued expenses relate to estimated expenses

	2024 US\$ '000	2023 US\$ '000
Deferred tax reconciliation		
Deferred tax brought forward	37	(24)
Deferred tax (asset) / liability carried forward	1,064	37

15. Managers' remuneration

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

	2024 US\$ '000	2023 US\$ '000
Acquisition costs	426	345
Administration	1,704	1,381
	2,130	1,726

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.

All the Directors are members of the Company other than the Chief Executive Officer and Chief Financial Officer who are employed by Thomas Miller War Risks Services Limited ("the Managers"). The Managers received US\$2.130m (2023: US\$1.726m) from the Company in respect of management fees for the year which included the salaries of these Executive Directors. The salaries of the Executive Directors are not separately identifiable from the total management fees. The management fees have been fully settled in the year.

17. Location and nature of business

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

18. Post Balance Sheet Events

There were no post balance sheet events requiring disclosure.

19. Derivative Financial Instruments

There were no post balance sheet events requiring disclosure.

	Contract notional amount US\$'000 2024	Fair Value US\$'000 2024	Fair value liability US\$'000 2024	Contract notional amount US\$'000 2023	Fair Value US\$'000 2023	Fair value liability US\$'000 2023
Non –hedge contracts	10,014	-	82	9,653	225	-

Managers and Officers

Managers

Thomas Miller War Risks Services Limited

Directors Of Thomas Miller War Risks Services Limited

K. Halpenny
R.A.A. Harnal
P. Knight

Secretary

K. Halpenny

Registered Office

90 Fenchurch Street
London EC3M 4ST
Telephone: +44 (0) 207 283 4646
Facsimile: +44 (0) 207 929 3918

Registered Number

01901415 ENGLAND Thomas Miller & Co Ltd

