

BUILDING ON SUCCESS

*Review of the Year for the year ended
31 December 2013*

Total Entered Value

\$80bn

Total Number of Ships Entered



2,259

Surplus for the Year

\$4.9m

End of Year Reserves

\$103m

Investment Return

5%

Pirate Activity



+1

The Association received six claims in 2013 – a small increase from the five received in 2012. Most claims arose from pirate activity off West Africa.

AP Areas



South America

Africa & Middle East

South East Asia

South America
Venezuela

- Africa**
Benin
Eritrea
Gulf of Guinea
Libya
Nigeria
Somalia
Southern Red Sea
Gulf of Aden / Gulf of Oman
Arabian Sea / Indian Ocean

- Middle East**
Iran
Iraq
Israel
Lebanon
Saudi Arabia
Syria
Yemen

- South East Asia**
Balikpapan
North East Coast of Borneo
Jakarta
Philippines

Proud of our tradition, proud of our history,
focused on the future

A combination second to none

Somali piracy activity continued to show a reduced trend as had begun in 2012. Indeed, for the first year since 2007, no vessel entered in the Association was attacked successfully by Somali pirates. Attacks and vessel seizures in the Gulf of Aden and Indian Ocean by Somali pirates however remain a real threat to shipping, necessitating a continued use of countermeasures against piracy.

In contrast, piracy incidents off West Africa became more widespread over the year. The Association incurred several claims in West African waters. One incident sadly resulted in the death of a member of the ship's crew, and another in the kidnapping of two crew members, who were taken onshore and held for ransom. The crew were released after the Association provided assistance. The waters off West Africa continue to present challenging threats to the security of vessels from piracy and Members should remain vigilant at all times.

It is pleasing to note that the level of claims incurred by the Association in 2013 reduced compared with previous years. The improvement in claims, combined with a strong investment return of 5.2%, enabled the Association to deliver a year-end surplus of \$4.9 million. This was despite the Association not having called the second instalment of annual premiums last year and is testament to the Membership's continuing support as well as prudent management of the Association's reserves and underwriting standards. The Association's reserves stood at over \$100 million at the end of 2013 and a comprehensive reinsurance programme remains in place with "A" rated insurers to protect the reserves from unanticipated losses.

My fellow Directors and I are all too aware of the cost pressures Members have faced in what have been very difficult freight markets in recent years. The Association is run for the benefit of its Members, rather than external shareholders who would require a financial return for their investment. This enables the Association to always act in Members' best interests; not just in pure financial terms, but by providing the highest possible standards of service, integrity, claims handling expertise and breadth of cover. I believe that the Association is in a strong position to improve further the benefits to Members in 2014 and indeed in the years ahead.

Finally, this is my first Chairman's statement, having been elected in September 2013. I would like to take this opportunity to thank my predecessor, Mr Michael Chandris, for his successful Chairmanship of the Association over the past five years. This was marked by the onset of the world financial crisis, as well as an epidemic of Somali piracy seizures. Despite these factors, the Association's reserves increased significantly, even though many large claims were paid. It is my aim for the Association to continue to build on this success in the coming years for the benefit of the entire Membership, whatever geo-political events may arise. The Hellenic War Risks Club is a unique Greek cooperation and its value to all its Members should not be underestimated.

M F Lykiardopulo
Chairman
15 May 2014

ADDITIONAL PREMIUM (AP) AREAS

The importance of taking steps to deter piracy remain as high as ever

Highlights

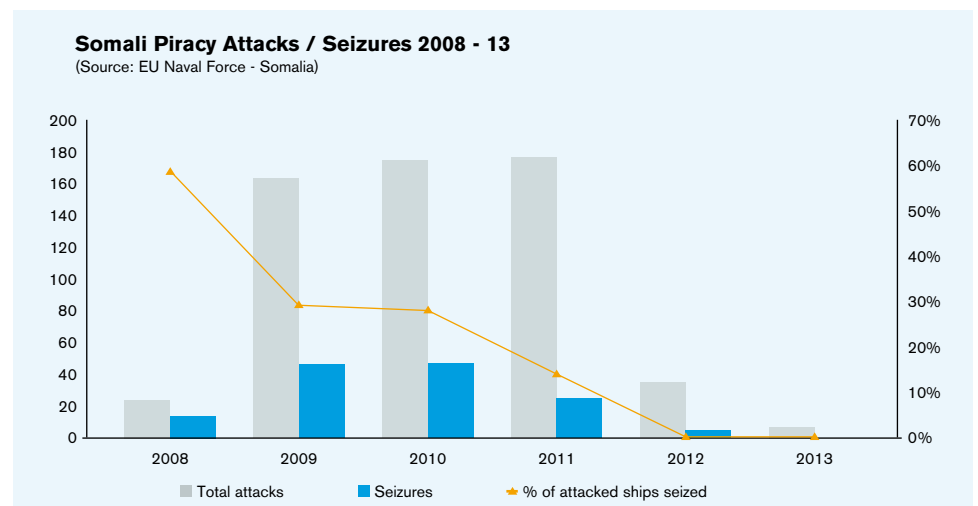
- Ten per cent reduction in piracy attacks globally masks increased activity in South East Asia & West Africa
- West Africa AP region boundaries increased in July 2013
- Additional precautionary advice on West Africa was issued by the shipping industry augmenting BMP4
- Instability continued in the Middle East following imposition of military rule in Egypt
- Although low level in terms of damage & injury, attacks in South East Asia account for half of all global attacks on shipping

Globally the number of piracy attacks declined by ten per cent during 2013, but the proportion of attacks in South East Asia and West Africa has grown and brought with it a different form of threat. Although there has not been a total loss of a ship to piracy since 2010, the potential threat of violence to crews has significantly increased.

Gulf of Aden / Indian Ocean

The continued fall in the level of Somali pirate activity, and success in defending against those attacks that do occur is illustrated by the following graph of EU NAVFOR statistics.

Security teams were deployed on over 50 per cent of the Gulf of Aden & Indian Ocean transits declared.



The numbers of recorded attacks reduced from 35 in 2012 to 7 in 2013 with no seizures occurring that year (2012: 5 seizures). Indeed the last recorded seizure was in May 2012.

The International Maritime Bureau (IMB)'s annual report for 2013 attributed the continuing fall in piracy in this region to navy counter-piracy patrols, the hardening of ships, the use of private military security teams on board and political improvements in Somalia.

Members' declaration of over 3,000 transits of the Gulf of Aden / Indian Ocean AP Area, comprised half of the total number of AP declarations worldwide that year. Security teams were deployed on over 50 per cent of the Gulf of Aden / Indian Ocean transits declared. The Association continues to offer discounts on APs to Members for transits where security teams are deployed.

Although the number of attacks and seizures has fallen, the need for vigilance and the importance of taking steps to deter piracy remain as high as ever.

Best Management Practices for Protection against Somalia Based Piracy ("BMP4") remain an essential reference point for owners and masters whose ships transit the area. The Association continues strongly to endorse this document: a failure to implement BMP could potentially affect cover in the event of a claim.

Piracy off West Africa now accounts for one fifth of the global total

Well established advice in the form of "Best Management Practices for Protection against Somalia Based Piracy Version 4 – August 2011" (BMP4) helps companies, crews and ships to avoid, deter and delay pirate attacks.

It includes sections on:

- Risk Assessment
- BMP Reporting Procedures
- Company Planning
- Master's Planning
- Protection Measures
- Post Incident Reporting

An additional booklet "Interim Guidelines for Owners, Operators and Masters for protection against piracy" published in December 2012, is a supplement to the recommendations of BMP 4 focusing on protection against piracy and armed robbery in the Gulf of Guinea region.

Both publications can be downloaded from the Association's website www.hellenicwarrisks.com

West Africa

Piracy off West Africa now accounts for one fifth of the global total with more frequent attacks and more widespread areas of activity during 2013. In July 2013 the Association extended the perimeter of its West Africa AP area (Circular C2/2013) including the neighbouring state of Togo to reflect this wider risk.

Piracy activity in this region is a more complex model characterised by armed robbery, cargo theft and kidnapping depending on the location of the incident. Armed robbery is widespread and opportunistic and often violent, placing crews at significant risk of serious harm. Organised criminal gangs have struck in STS areas; hijacking ships to steal cargo by lightering to smaller ships in their control. Their brutality towards ships' crews is also matched with technical expertise relating to ship communications and cargo handling systems. Where kidnapping has taken place, it is more usually associated with political unrest in the Niger Delta area and often focuses on offshore supply and other oil company craft, though kidnaps of ships' crews do occur.

Reflecting increased security concerns in the Gulf of Guinea region, in December 2012, "Interim Guidelines for Owners, Operators and Masters for protection against piracy and armed robbery in the Gulf of Guinea region" were produced. These Interim Guidelines are based on and should be read in conjunction with BMP4, which largely address the Somalia based piracy problem.

Members declared over 900 AP calls to this area during 2013. The vast majority – over 650 – were to Nigerian ports and terminals.

Middle East

Instability in the Middle East region has increased further with the civil unrest and imposition of military government in Egypt. Although the Egyptian army provides significant resources to the security of the Suez Canal, a number of reports indicate the canal and passing traffic present a target for politically motivated attacks.

Diplomatic efforts to improve the situation in Syria have yet to achieve much progress and sanctions by the EU and the United States remain in place against key figures and organisations in the Syrian government.

At the close of the year, diplomatic negotiations with the Iranian government over nuclear arms and development yielded a temporary suspension of some sanctions. Although an improvement, the suspension of sanctions is dependent on further diplomatic progress without which the sanctions will resume.

South East Asia

Two product tankers (not entered in the Association) were hijacked in Malaysian waters in 2013 and the crews held hostage whilst ships' property and cargo were stolen. Although low-level and generally providing less significant danger to crews, more than half of all boardings took place in Indonesian anchorages and waters and armed robbery increased for a fourth consecutive year. Similar opportunistic theft incidents took place around India and Bangladesh.

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PROUD OF OUR TRADITION, PROUD OF OUR HISTORY, FOCUSED ON THE FUTURE



CHARITABLE DONATIONS

Investing in the future

The Hellenic War Risks scholarship for serving officers in the Hellenic Navy to study at Plymouth University continued with the two sponsored postgraduates progressing well in their studies. These scholarships were established in 2011 to mark the Club's 50th anniversary and to give thanks to the Hellenic Navy for their ongoing anti-piracy efforts in the Gulf of Aden and Indian Ocean.

CLAIMS

The Association received six claims in 2013

The Association received six claims in 2013 – a small increase from the five received in 2012. Most claims arose from pirate activity off West Africa. In one case a crew member was shot and killed by a Nigerian pirate. In another two crew members were taken hostage by Nigerian pirates and were released after payment of a ransom.

Reserves at the year end – \$103 million

Highlights:

- Free reserves now exceed \$100 million
- Improving claims performance
- Strong investment return of \$5 million
- Reduced premium income reflected waiving of second instalment of annual premiums and falls in Gulf of Aden /Indian Ocean AP rates

The table below compares key financial information from 2013, together with the corresponding figures from 2012 and 2011.

All figures in \$000s	2013	2012	2011
Contributions and Premiums	19,978	37,451	47,028
Reinsurance premiums	(15,803)	(22,164)	(27,656)
Expenditure	(4,179)	(4,672)	(4,751)
Operating surplus / (deficit)	(4)	10,615	14,621
Investment return	4,966	2,574	1,632
Property taxes	(19)	(22)	(18)
Surplus for the year	4,943	13,167	16,235
Non-controlling interests	(11)	40	9
Net surplus	4,932	13,207	16,244
Reserves at the year end	103,330	98,395	85,188

The significant reduction in contributions and premium in 2013 is primarily a reflection of further fall in income from Additional Premium which fell again from \$31.9 million to \$17.7 million. Discounts continue to be given to Members who deploy on-board security teams for transits of the Gulf of Aden and Indian Ocean region.

Premiums also reduced due to the waiving of the second instalment of premium from Members.

The investment portfolio gave a return of \$5 million in 2013, and out-performed its benchmark of performance. Absolute performance was boosted by strong equity and Absolute Return Fund (ARF) returns. Performance relative to the benchmark was helped by good stock selection in fixed income and ARFs. The equity portfolio rose by 29 per cent in 2013 and the ARF portfolio returned 9 per cent. The portfolio's allocation to equities and to ARFs was increased during the year by 3 per cent and 2 per cent, respectively, to 17 per cent in equities and 18 per cent in ARFs by the year end. Fixed income returns were negative in 2013 as US bond yields rose during the year but the portfolio outperformed the benchmark as it was more defensive, with a lower average duration, and it also benefited from its exposure to non-government bonds.

A reduction in the level of reinsurance premiums and net incurred claims partially offset some of the fall in income.

Despite this negative net result, the Club's reserves exceeded the \$100 million point to close the year at \$103.3 million.

This section of the review is based on figures taken from the audited Directors' Report and Consolidated Financial Statements for 2013, which the Directors have approved for submission to the membership at the Annual General Meeting in Athens in September. The Directors' Report and Consolidated Financial Statements will be sent to Members in advance of the AGM.



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