

# 2007

## ANNUAL REPORT

DIRECTORS' REPORT & FINANCIAL STATEMENTS

THE UNITED KINGDOM FREIGHT DEMURRAGE & DEFENCE ASSOCIATION LIMITED

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## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members will be held in London on the 20th day of September, 2007 at 9.30 a.m. for the following purposes:-

to receive and adopt the Directors' Report and Financial Statements for the year ended 20 February, 2007:

to re-elect Directors;

to consider amendments to the Rules of the Association;

to re-appoint the Auditors and authorise the Directors to fix their remuneration; and

to transact any other business.

By Order of the Board

I.R. Jarrett

**Secretary**

26 April, 2007

## THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

### Directors

E. F. André

A. S. Bernard

R. G. Crawford, C.B.E.

M. Bottiglieri (appointed on 11th August, 2006)

P. P. Decavèle

G. A. Gratsos

M. Hashim

P. C. Laskaridis

M. F. Lykiardopulo

A. D. Manthos

T. J. McClure

S. Palios

P. Pappas

M. G. Pateras

C. H. Tan (appointed on 17th August, 2006)

P. J. Vogt (Chairman)

G. D. Weston (appointed on 11th August, 2006)

G. Woodford

## REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Report and the Financial Statements of the Association for the year ended 20 February, 2007.

### PRINCIPAL ACTIVITIES

The Association carries on the business of mutual insurance of its Members against legal costs and expenses as defined in the Rules of the Association.

Under an agreement dated 19 February, 1999, the Association reinsures 90 per cent of its business with The United Kingdom Defence Insurance Association (Isle of Man) Limited ("UKDIA").

The number of ships entered in the Association at the year end on 20 February, 2007 was 3,244 (2,522 owned and 722 chartered), compared with 2,911 ships (2,376 owned and 535 chartered) on 20 February, 2006, an overall rise of 11%.

### FINANCIAL REVIEW

As shown in the Association's Income and Expenditure Account on page 10, the year ended with a deficit on the technical account of £169,000 (2006: £694,000 deficit) and after investment income, exchange gains/losses and taxation, there was a deficit for the year of £747,000 (2006: £384,000 surplus). The deficit was mainly caused by exchange losses arising from the weakening of the US dollar exchange rate against sterling during the year, though this was balanced to some extent by the release of margins from the Association's claims reserves.

The deficit for the year led to a fall in the Association's accumulated surplus of reserves (shown on the Consolidated Balance Sheet of the Association and its subsidiary, set out on page 11) from £1,782,000 at 20 February, 2006 to £1,034,000 at 20 February, 2007.

The Association's gross claims reserves at 20 February 2007 were £31,259,000 (2006: £32,344,000), an overall reduction of £1,085,000 in the year.

The reserves at 20 February, 2007, together with calls made on Members after that date, are available, and in the opinion of the Directors are necessary, to meet the Association's outgoings and the legal costs and other expenses of the Association's business.

The Board of Directors has effected a Directors' and Officers' Liability Insurance policy to indemnify the Directors and Officers of the Company against loss arising from any claim against them jointly or severally by reason of any wrongful act in their capacity as Directors or Officers of the Association. The insurance also covers the Association's loss when it is required or permitted to indemnify the Directors or Officers pursuant to common law, statute, or the Articles of Association. The cost of the insurance is met by the Association and is included in net operating expenses.

## REPORT OF THE DIRECTORS (CONTINUED)

### FINANCIAL RISK MANAGEMENT

The Association is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are: market risk, credit risk, insurance risk and liquidity risk.

- **Market risk**

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices and foreign currency exchange rates, affecting both the value of the Association's investments and, in the case of exchange rates, its premium income and liabilities. The Association has a policy in place to manage its exposure to its investments, and this is monitored by regular reports from the investment managers to the Association's Board of Directors.

The impact of exchange rate risk is mitigated by the use of forward contracts for the sale of premium income, which is almost all received in US dollars, into sterling, and the currency matching of assets and liabilities.

- **Credit risk**

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Association's exposure primarily relates to debtors and bank balances. Exposure to debtors, which is mainly in respect of calls and premium contributions, is spread over a large number of members and counterparties, which mitigates the risk. Exposure to bank balances however is more concentrated, with two main counterparties and the risk is mitigated by placing funds surplus to normal operational requirements in money market funds and other investments.

- **Insurance risk**

The Association's risk can arise from:

- a) fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
- b) unexpected claims arising from a single source;
- c) inaccurate pricing of risks when underwritten;
- d) inadequate reinsurance protection;
- e) inadequate reserves

The risk is managed by underwriting, reinsurance and reserving strategies which are agreed and monitored by the Association's Board.

## REPORT OF THE DIRECTORS (CONTINUED)

### FINANCIAL RISK MANAGEMENT (continued)

- **Liquidity risk**

The Association manages this risk by the use of liquid investments and its ability to call upon its quota share reinsurer, UKDIA, in the event of a significant outflow of funds.

### DIRECTORS

The Directors who held office during the year are listed on page 3.

In accordance with the Articles of Association, all the Directors retire at the forthcoming Annual General Meeting to be held on 20th September, 2007 and will be eligible for re-election.

### MEETINGS OF DIRECTORS

The Directors met on five occasions during the year under review, in order to fulfil the general and specific responsibilities entrusted to them by the Members under the Rules and under the Memorandum and Articles of Association. At these meetings the Directors received and discussed written and oral reports and recommendations from the Managers on calls and other policy matters.

As in past years, a substantial portion of each meeting involved the consideration of Members' cases in which the Association's support was requested for court or arbitration proceedings. The Directors considered 36 major cases during the year. Furthermore, as in past years the Managers considered a substantial number of requests for support in proceedings under the authority delegated to them by the Directors. Of all the cases formally considered by the Board or the Managers, 86% received a significant measure of support from the Association, amply illustrating the importance attached by both Board and Managers to the Association being supportive of its Members whenever the circumstances render that possible.

The work of the Association remains substantial with about 2,110 case files open during the past year. However, the Managers continue to advise and support Members who are involved with disputes and are frequently able to help them reach satisfactory terms of settlement without proceedings.

### AUDITORS

Each of the persons who is a Director at the date of approval of this report confirms that:

- 1) so far as the Director is aware, there is no relevant audit information of which the Association's auditors are unaware;
- 2) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Association's auditors are aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

RSM Robson Rhodes LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them as the Association's auditors will be proposed at the forthcoming Annual General Meeting.

P. J. Vogt

**Chairman**

26 April, 2007

## REPORT OF THE DIRECTORS (CONTINUED)

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual 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). The financial statements are required by law to give a true and fair view of the state of the Association and of the income and expenditure 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 judgements and 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

## INDEPENDENT AUDITORS' REPORT

### INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

We have audited the financial statements on pages 10 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Association's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### BASIS OF OPINION (continued)

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

### OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Association as at 20 February 2007 and of the deficit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors  
London, England

26 April, 2007

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the year ended 20 February, 2007

	Note	2007 £'000	2006 £'000
<b>Technical Account</b>			
Gross premiums written		12,961	11,769
Outward reinsurance premiums	3	(7,940)	(7,196)
		5,021	4,573
Gross claims paid	4	(9,785)	(9,666)
Reinsurers' share		6,831	6,817
		(2,954)	(2,849)
Gross change in provision for claims	16	1,085	(966)
Reinsurers' share		(977)	869
		108	(97)
Net incurred claims		(2,846)	(2,946)
Net operating expenses	5	(2,344)	(2,321)
Balance on the technical account		(169)	(694)
<b>Non Technical Account</b>			
Balance on the technical account		(169)	(694)
Investment income	8	(15)	140
Unrealised (losses)/gains on investments		(64)	62
Exchange (losses)/gains		(507)	927
(Deficit)/surplus on ordinary activities before tax		(755)	435
Tax on ordinary activities	14	8	(51)
(Deficit)/surplus on ordinary activities after tax		(747)	384

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

## CONSOLIDATED BALANCE SHEET

20 February, 2007

	Note	2007 £'000	2006 £'000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	10	1,372	564
<b>Debtors</b>			
Debtors arising out of direct insurance operations	12	1,032	1,441
Other debtors		87	69
Cash at bank		1,875	3,281
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		28,133	29,110
<b>Total assets</b>		<b>32,499</b>	<b>34,465</b>
<b>Liabilities and Reserves</b>			
Surplus of reserves		1,034	1,782
<b>Technical provisions</b>			
Claims outstanding	16	31,259	32,344
		32,293	34,126
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	34	38
Creditors arising out reinsurance operations		68	45
Other creditors including tax and social security	13	38	143
Accruals and deferred income		66	113
		206	339
<b>Total liabilities and reserves</b>		<b>32,499</b>	<b>34,465</b>

The financial statements set out on pages 10 to 22 were approved by the Board of Directors on 26 April, 2007 and have been signed on its behalf by:

### DIRECTORS

P. J. Vogt

R. G. Crawford

### MANAGERS

D. J. Evans

## HOLDING COMPANY BALANCE SHEET

20 February, 2007

	Note	2007 £'000	2006 £'000
<b>Assets</b>			
<b>Investments</b>			
Shares in group undertakings	11	50	50
Other financial investments	10	1,372	564
<b>Debtors</b>			
Debtors arising out of direct insurance operations	12	1,032	1,441
Other debtors		37	19
Due from subsidiary		5	5
Cash at bank		1,875	3,281
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		28,133	29,110
<b>Total assets</b>		<b>32,504</b>	34,470
<b>Liabilities and Reserves</b>			
Surplus of reserves		1,044	1,792
<b>Technical provisions</b>			
Claims outstanding	16	31,259	32,344
		<b>32,303</b>	34,136
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	34	38
Creditors arising out of reinsurance operations		68	45
Other creditors including tax and social security	13	33	138
Accruals and deferred income		66	113
		<b>201</b>	334
<b>Total liabilities and reserves</b>		<b>32,504</b>	34,470

The financial statements set out on pages 10 to 22 were approved by the Board of Directors on 26 April, 2007 and have been signed on its behalf by:

### DIRECTORS

P. J. Vogt

R. G. Crawford

### MANAGERS

D. J. Evans

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 20 February, 2007

	Note	2007 £'000	2006 £'000
<b>OPERATING ACTIVITIES</b>			
Premiums received		12,975	11,691
Claims paid net of reinsurers' share		(731)	(756)
Reinsurance premiums paid		(7,916)	(7,151)
Other operating cash payments		(4,289)	(3,512)
Net cashflow from operating activities		39	272
Interest received and exchange (losses)/gains		(522)	1,070
Taxation		(51)	(16)
	15	(534)	1,326

### CASHFLOW STATEMENT

	2007 £'000	2006 £'000
Balance on technical account	(169)	(694)
(Decrease)/increase in provision for claims	(108)	97
Decrease in debtors	399	726
(Decrease)/increase in creditors	(83)	143
Net cash inflow from operating activities	39	272

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 20 February, 2007

### 1 Constitution

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

In the event of the company's liquidation the net assets of the Association are to be distributed in proportion to the amount of contributions paid by Members during the preceding six years.

### 2 Accounting Policies

#### (a) Accounting disclosures

These Financial Statements have been prepared under the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and comply with applicable accounting standards. The Financial Statements are prepared on an annual basis under the historical cost convention as modified by the revaluation of investments and comply with all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006.

#### (b) Foreign currencies

Foreign currency assets and liabilities (except the cost of investment) are translated into sterling at the rates of exchange ruling at the balance sheet date. The resulting difference is treated as unrealised.

Revenue transactions are translated into sterling at the rate applicable for the date on which they took place.

Differences between closing exchange rates and the rates applying to outstanding forward currency contracts are also recognised. All exchange gains/losses whether realised or unrealised have been included in the Income and Expenditure Account for the year.

#### (c) Gross premiums written

Calls and premiums include calls less return premiums and the change in provisions for bad and doubtful debts. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any adjustments in respect of prior accounting periods. There are no unearned premiums.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 20 February, 2007

### 2 Accounting Policies (continued)

#### (d) Claims

These are the legal costs and expenses of the Members covered by the Association. They include all claims incurred during the year, whether paid, estimated or unreported together with internal claims management costs and future claims management costs and adjustments for claims outstanding from previous years.

A forecast of unreported claims is based on the estimated ultimate cost of claims arising out of events which have occurred before the end of the accounting period but have not yet been reported. These future claims are based on the Managers' best estimate of unreported claims on each policy year. The estimates are calculated by comparing the pattern of claims payments in current policy years with earlier policy years, and then projecting the likely outcome of the more recent years.

Whilst the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Any differences between the provisions and subsequent settlements are dealt with in the technical accounts of later years.

#### (e) Investments

Investments purchased in foreign currencies are translated into sterling on the date of purchase. The market value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date. The investment in the Subsidiary is carried at cost in the Holding Company Balance Sheet.

#### (f) Investment income

This comprises income received during the year adjusted in respect of interest receivable at the year end, and profits and losses on the sale of investments and gains and losses on closed forward currency contracts.

The unrealised gains and losses on the movement in the market value of the investments are included in the non-technical account. No transfer is made of the investment returns from the non-technical account to the technical account, as this is not considered appropriate.

#### (g) Consolidation

As the Financial Statements are in consolidated form, the Association is exempt from the requirement to present an Income and Expenditure Account for the holding company.

#### (h) Taxation

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 20 February, 2007

### 3 Outward Reinsurance Premiums

	2007 £'000	2006 £'000
Excess loss premium	459	310
90% quota share premium 2006/7	10,863	9,957
	11,322	10,267
Agreed discount	(3,382)	(3,071)
	7,940	7,196

### 4 Gross Claims Paid

	Note	2007 £'000	2006 £'000
Legal costs and expenses		7,519	7,574
Management fee in respect of claims handling	6	2,266	2,092
		9,785	9,666

### 5 Net Operating Expenses

	Note	2007 £'000	2006 £'000
Management fee	6	1,510	1,395
Directors' remuneration		109	93
Auditors' remuneration:			
Audit		18	22
Non-audit		–	2
Brokerage		430	396
Other expenses		277	413
		2,344	2,321

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 20 February, 2007

### 6 Management Fee

The fee covers the Managers' costs of providing offices, staff and administration. It is fixed by the Directors in accordance with the Rules. No loan has been made to the Managers and none is contemplated. The Association itself had no employees throughout the year.

The management fee is apportioned across three functions which are included in the accounts as follows:

	Note	2007 £'000	2006 £'000
Acquisition costs		1,208	1,114
Other		302	281
Management fees in Net Operating Expenses	5	1,510	1,395
Claims handling	4	2,266	2,092
		3,776	3,487

### 7 Directors' Fees

	2007 £'000	2006 £'000
Aggregate emoluments	109	93

Pension contributions are not made in respect of any of the Directors.

### 8 Investment Income

	2007 £'000	2006 £'000
Bank deposits	78	103
Return on short term deposit funds	(93)	37
	(15)	140

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 20 February, 2007

### 9 Rates of Exchange

	2007	2006
Year end rates of exchange were:		
Equivalent to £1 sterling US dollar	1.9499	1.7406

### 10 Investments

	Market Value		Cost	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Short term deposit funds	1,372	564	1,431	559

	2007	2006
Cash and interest bearing securities repayable:		
within one year	100%	100%

### 11 Investments

	Holding Company	
	2007 £'000	2006 £'000
Shares in group undertakings at cost	50	50

The Association owns 100% of the issued share capital of United Kingdom Defence Reinsurance Association Ltd., a company that is incorporated in Bermuda. This company does not trade.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 20 February, 2007

### 12 Debtors

	2007 £'000	2006 £'000
Arising out of direct insurance operations:		
Contributions	263	282
Recoverable deductibles	112	68
Due from quota share reinsurer	657	1,091
	1,032	1,441

### 13 Creditors

	The Group		Holding Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Arising out of direct insurance operations:				
Members	34	38	34	38
Other creditors:				
Corporation tax payable	-	51	-	51
Other	38	92	33	87
	38	143	33	138

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 20 February, 2007

### 14 Taxation

This relates to the holding company and is in respect of United Kingdom corporation tax on its assessable investment income and gains at current rates of taxation.

The tax charge for the year is made up as follows:-

	2007 £'000	2006 £'000
Corporation tax at 19% (2006 – 19%)	(8)	51
Prior year adjustment	–	–
<b>Total current tax</b>	<b>(8)</b>	<b>51</b>

The current taxation credit/charge for the year is different from the standard rate of corporation tax for companies of this size in the UK (19%). The differences are explained below.

	2007 £'000	2006 £'000
(Deficit)/surplus on ordinary activities before taxation	(755)	435
Theoretical tax of UK corporation tax of 19% (2006: 19%)	(143)	83
Effects of:		
Balance on technical account	32	132
Non-taxable exchange gains	103	(164)
<b>Actual current tax (credit)/charge</b>	<b>(8)</b>	<b>51</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 20 February, 2007

### 15 Cash Flow Statement

Movement in cash, deposits and investments

	At 20/02/2006 £'000	Cashflow £'000	Change in market value £'000	At 20/02/2007 £'000
Cash at bank	3,281	(1,406)	–	1,875
Other financial investments	564	872	(64)	1,372
	3,845	(534)	(64)	3,247

### 16 Claims Outstanding

	2007 £'000	2006 £'000
Claims outstanding at end of year	31,259	32,344
Claims outstanding at beginning of year	32,344	31,378
<b>Decrease/(increase) in gross provision for claims</b>	<b>1,085</b>	<b>(966)</b>

The nature of the business makes it very difficult to predict the likely outcome of any particular case and to estimate the cost of future claims. The estimates for known outstanding claims are based on the best estimates and judgement of the Managers of the likely cost of individual cases, and the extent of the Association's current commitment to the cost of these cases. These estimates are as accurate as possible given the details of the cases and taking into account all the current information. The estimates are reviewed regularly.

The movement on incurred claims for prior policy years was a release of £4,707,000 (2006: £3,460,000).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 20 February, 2007

### 17 Contingent Liabilities

A number of guarantees have been given in respect of legal costs relating to cases involving Members, where the Association is already committed to the costs of the cases.

The Association has entered into forward currency contracts to sell US Dollars 13,000,000 for sterling, during 2007 and 2008, which protect part of its US Dollar income against exchange rate fluctuations.

### 18 Related Party Disclosures

The Association has no share capital and is controlled by the Members who are also the insureds. The subsequent insurance transactions are consequently deemed to be between related parties but these are the only transactions between the Association and the Members.

All of the Directors are current representatives of member companies and other than the insurance, which is arranged on an arm's length basis, and member interests of these companies, the Directors have no financial interests in the Association.

The Association reinsures with the United Kingdom Defence Insurance Association (Isle of Man) Limited (UKDIA(IOM)) on a 90% quota share basis. None of the Directors of the Association are Directors of UKDIA(IOM).

## MANAGERS

### THOMAS MILLER DEFENCE LIMITED

D. J. Evans (Chairman)  
R. A. Bettinson  
A. T. Jenkinson  
N. G. Long  
A. A. J. Mackinnon  
J. R. Morris  
S. L. Murphy  
P. M. Sessions  
N. Staff  
M. R. White

### SECRETARY

I. R. Jarrett

### REGISTERED OFFICE

International House,  
26 Creechurch Lane,  
London, EC3A 5BA  
Telephone: 020 7283 4646  
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### REGISTERED NUMBER

00501877 England

### SUBSIDIARY COMPANY

UNITED KINGDOM DEFENCE REINSURANCE ASSOCIATION LTD.

### REGISTERED OFFICE AND BUSINESS ADDRESS OF THE SUBSIDIARY

Windsor Place, 18, Queen Street,  
P.O. Box 665,  
Hamilton HMCX, Bermuda.  
  
Telephone: Hamilton 2-4724

