

THE UNITED KINGDOM DEFENCE INSURANCE  
ASSOCIATION (ISLE OF MAN) LIMITED

# Directors' Report & Financial Statements

The United Kingdom Defence Insurance Association (Isle of Man) Limited  
For the year ended 20th February, 2009



# Contents

Directors	<b>3</b>
Report of the Directors	<b>4</b>
Appendix to the Report of the Directors	<b>6</b>
Independent Auditors' Report	<b>7</b>
Income and Expenditure Account	<b>8</b>
Balance Sheet	<b>9</b>
Cash Flow Statement	<b>10</b>
Notes to the Financial Statements	<b>11-18</b>
Managers and Secretary	<b>19</b>

## Notice of Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Members will be held in Douglas, Isle of Man on the 29th day of September, 2009 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, 2009;
- to re-elect Directors;
- to re-appoint the Auditors and authorise the Directors to fix their remuneration; and
- to transact any other business.

Any Member of the Association entitled to attend and vote is entitled to appoint a proxy and that proxy need not be a Member of the Association.

By Order of the Board  
Havelock Insurance Management Limited  
**Secretary**

16 April, 2009

# **The United Kingdom Defence Insurance Association (Isle of Man) Limited**

## **Directors**

Dr. D. L. Moore

E. Shallcross

M. Boutellier-Cor (resigned 18th November 2008)

E. A. Keane

P. Gruaz (appointed 16th April 2009)

I. R. Simpson

# 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 2009.

## Principal Activity

The Association's principal activity is that of an insurance company, accepting reinsurance from the United Kingdom Freight Demurrage and Defence Association Limited on a quota share basis. The Association is authorised by the Isle of Man Government Insurance and Pensions Authority to carry on an insurance business in or from the Isle of Man.

The Association was incorporated on 9 February 1999 and is limited by guarantee.

## Directors

The Directors of the Association who served during the year and to date are shown on page 3.

## Review of the Year

Operations for the year resulted in a profit of £1,661,000 (2008: £4,103,000).

## Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities, set out on page 7, is made for the purpose of clarifying for Members the respective responsibilities of the Directors and the Auditors in the preparation of the accounts.

Company law requires the Directors to have prepared Financial Statements, which give a true and fair view of the state of affairs of the Association as at 20 February 2009 and of its profit for the year then ended. In the preparation of these Financial Statements, the Directors are required to ensure that:

- suitable accounting policies have been selected and applied consistently;
- judgements and estimates which have been made are reasonable and prudent;
- the financial statements state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- the Financial Statements are prepared on a going concern basis.

The Directors confirm that the above requirements have been complied with in the preparation of the Financial Statements.

# Report of the Directors (continued)

## Statement of Directors' Responsibilities (continued)

The Directors are responsible for the keeping of 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 1931-2004, as modified by the Insurance Act 2008. They are also responsible for safeguarding the assets of the Association and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditors

Moore Stephens, the Association's auditors, are willing to continue in office pursuant to section 12(2) of the Companies Act 1931-2004.

By Order of the Board

For and on behalf of  
Havelock Insurance Management Limited

## Secretary

16th April 2009

# Appendix to the Report of the Directors

## Claims and Outstanding Claims

As at 20 February 2009.

These 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.

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
<hr/>		
<b>Summary of future outgoings</b>		
Estimated outstanding claims as at 20 February	<b>30,753</b>	27,609
<hr/>		

# Independent Auditors' Report

## Independent Auditors' Report to the Members of The United Kingdom Defence Insurance Association (Isle of Man) Limited

We have audited the financial statements of The United Kingdom Defence Insurance Association (Isle of Man) Limited for the year ended 20 February 2009 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members as a body, in accordance with Section 15 of the Isle of Man Companies Act 1982. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company'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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 1931-2004, as modified by the Insurance Act 2008. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company 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 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 audit 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 company's circumstances, consistently applied and adequately disclosed.

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 the company's affairs as at 20 February 2009 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1931-2004 as modified by the Insurance Act 2008.

### MOORE STEPHENS,

Chartered Accountants,  
Douglas, Isle of Man.

1 May 2009

# Income and Expenditure Account

For the year ended 20 February, 2009

	Note	2009 £'000	2008 £'000
<b>Premiums</b>			
Premiums receivable	4	11,956	11,242
Commissions payable		(3,685)	(3,501)
		<b>8,271</b>	7,741
<b>Investment Return</b>			
Investment income	5	2,452	1,884
Gains/(losses) on investments			
Realised		1,370	960
Unrealised		(151)	(381)
		<b>3,671</b>	2,463
<b>Claims</b>			
Claims paid		(7,680)	(6,513)
Claims recoveries		-	-
Change in provision for outstanding claims		(3,144)	524
		<b>(10,824)</b>	(5,989)
<b>Expenses</b>			
Management fee	6	(145)	(145)
General and administrative expenses	7	(69)	(55)
		<b>(214)</b>	(200)
Differences on exchange		<b>757</b>	88
<b>Profit for the year</b>		<b>1,661</b>	4,103
<b>Retained profit brought forward</b>		<b>16,531</b>	12,428
<b>Retained profit carried forward</b>	12	<b>18,192</b>	16,531

# Balance Sheet

At 20 February, 2009

	Notes	2009 £'000	2008 £'000
<b>Assets</b>			
Investments	8	40,482	23,351
Cash balances	8	8,679	18,778
<hr/>			
Total cash and investments	8	49,161	42,129
Accrued interest		736	663
Related party balances		-	67
Prepaid expenses		6	6
Due from investment brokers		2,353	1,465
<hr/>			
		52,256	44,330
<hr/>			
<b>Liabilities</b>			
Outstanding claims	9	(30,753)	(27,609)
Due to investment brokers		(2,376)	-
Related party balances		(797)	(50)
Accrued expenses		(38)	(40)
<hr/>			
		(33,964)	(27,699)
<hr/>			
<b>Net Assets</b>		<b>18,292</b>	16,631
<hr/>			
<b>Reserves</b>			
Guarantee Fund	12	100	100
Retained earnings		18,192	16,531
<hr/>			
<b>Total Reserves</b>		<b>18,292</b>	16,631
<hr/>			

## Directors

D. L. Moore  
E. Shallcross  
16 April 2009

## Managers

K. Allen  
For and on behalf of Havelock Insurance Management Limited  
16 April 2009

# Cash Flow Statement

For the year ended 20 February, 2009

	Note	2009 £'000	2008 £'000
<b>Operating Activities</b>			
Calls and premiums received		<b>11,956</b>	11,242
Interest received and exchange movement		<b>3,136</b>	1,820
		<b>15,092</b>	13,062
Claims paid		<b>(6,866)</b>	(7,237)
Commission		<b>(3,685)</b>	(3,501)
Management fee, general and administration expenses		<b>(216)</b>	(191)
		<b>(10,767)</b>	(10,929)
Net cash flow from operating activities	10	<b>4,325</b>	2,133
<b>Investing Activities</b>			
Purchase of investments		<b>(54,406)</b>	(20,634)
Sale of investments		<b>39,982</b>	37,109
Net cash flow from investing activities		<b>(14,424)</b>	16,475
Net (decrease) / increase in cash and cash equivalents		<b>(10,099)</b>	18,608
Cash and cash equivalents at beginning of year		<b>18,778</b>	170
Cash and cash equivalents at end of year	8	<b>8,679</b>	18,778

# Notes to the Financial Statements

For the year ended 20 February, 2009

## 1. Constitution

The Association was incorporated in the Isle of Man on 9 February 1999 and received authorisation from the Isle of Man Government Insurance and Pensions Authority to carry on an insurance business in or from the Isle of Man on 17 February 1999.

The Directors have the right to make supplementary calls on their Members (see note 14) for any open policy year to make good any deficit of income on that year, and similarly may return any surplus arising on a year to the members.

The Association reinsures 90% of the retained legal costs and expenses insurance risks of the United Kingdom Freight Demurrage and Defence Association Limited as set out in the reinsurance agreement.

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 to the United Kingdom Freight Demurrage and Defence Association Limited during the period of six years preceding the commencement of the winding-up.

## 2. Accounting policies

In the absence of comparable standards in the Isle of Man, the Directors have resolved to adopt United Kingdom Accounting Standards published by the Accounting Standards Board of the United Kingdom in the preparation of the Financial Statements, provided they are consistent with the Isle of Man Companies Act 1931-2004 and also in accordance with the Isle of Man Insurance Act 2008 and related Regulations, except that investments are carried at market value. The Insurance Act 2008 and related Regulations prescribe the format of certain elements of the Financial Statements. The Directors have also considered the disclosure requirements of The Statement of Recommended Practice on Accounting for Insurance, December 2005, and adopted the recommendations as applicable to the Association.

The preparation of Financial Statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant accounting policies are:

### (a) Premiums

Premiums are recorded on an accruals basis. The Association has the ability to make supplementary calls upon Members.

The reinsurance agreement with the United Kingdom Freight Demurrage and Defence Association Limited contains provisions with respect to premium adjustments. The adjustments are dependent upon the invested assets of one party as a proportion of the total of both parties and may be made by either the United Kingdom Freight Demurrage and Defence Association Limited or the Association. Any such premium adjustments are recorded in the Financial Statements in the accounting period in which they are made.

# Notes to the Financial Statements (continued)

For the year ended 20 February, 2009

## 2. Accounting policies (continued)

### (b) Claims

Losses are recorded on a reported basis. In addition, provision is made for claims incurred but not reported based on information provided to the Association by its reinsured and the estimates of the Managers.

Inherent in these estimates are expected trends in claim severity, frequency and other factors that could vary as claims are settled. Accordingly, the amount provided for estimated outstanding claims may differ materially from the Association's ultimate liability for such claims. Any differences will be recorded in the period in which they are determined.

### (c) Foreign currencies

Revenue transactions in foreign currencies have been translated into Sterling at rates revised at monthly intervals. All exchange gains and losses whether realised or unrealised are included in the Income and Expenditure Account. The differences arising on currency translation and the realised differences arising on the sale of currencies are included within realised gains within investment income.

Foreign currency assets and liabilities including investments are carried at market value translated into Sterling at the rates of exchange ruling at the Balance Sheet date. The resulting difference is treated as unrealised.

### (d) Expenses

Commissions payable, management fees and other general and administrative expenses are recorded on an accruals basis.

### (e) Investments

The interest receivable from the investments together with the profits and losses on sale of investments are included within investment income in the Income and Expenditure Account. The unrealised gains and losses on the movement in the market value of the investments compared to the cost are included in unrealised gains and losses on investments within investment income.

Investments are stated at their market value at the balance sheet date. Investments purchased in foreign currencies are translated into Sterling on the date of purchase. The market values of foreign currency investments are translated at the rate of exchange ruling at the balance sheet date.

Undertakings for Collective Investments of Transferable Securities ("UCITS") are used as an alternative to cash deposits and are translated into Sterling on the date of purchase.

## 3. Taxation

In 2007 the company obtained exemption from Manx income tax in accordance with the provisions of the Income Tax (Exempt Insurance Companies) Act 1981. Following the abolition of the tax exemption status, the Isle of Man Treasury introduced the new corporate charge legislation. The corporate charge, which has initially been set at £250, is payable annually by the Company. With effect from the fiscal year commencing 5 April 2007 the Company pays income tax at 0% on its profits.

# Notes to the Financial Statements (continued)

For the year ended 20 February, 2009

## 4. Premiums receivable

	2009 £'000	2008 £'000
Gross written premium	11,956	11,242

## 5. Investment return

	2009 £'000	2008 £'000
Investment income		
Bond interest	1,588	1,759
Bank deposit interest	546	221
Currency gains/(losses)	353	(54)
Custody fees	(35)	(42)
	<b>2,452</b>	1,884
Gains on investments		
Realised gains on sale of investments	1,370	960
Unrealised decrease in market value of investments	(151)	(381)
	<b>3,671</b>	2,463

## 6. Management fee

The fee paid to the Managers covers the cost of providing offices, staff and administration in the Isle of Man, and includes investment management services provided by a company in the same group as the Managers.

## 7. General and administrative expenses

	2009 £'000	2008 £'000
Directors' and Officers' insurance	10	11
Audit fees	18	16
Directors' fees	15	15
Directors' and Managers' travel	5	4
Government fees	4	4
Printing, stationery and communications	1	1
Sundry costs	6	4
Corporate Governance review	10	-
	<b>69</b>	55

# Notes to the Financial Statements (continued)

For the year ended 20 February, 2009

## 8. Cash and investments

### (i) Cash balances

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Cash	11	5
Deposits - Short term	1,164	5,051
Deposits - Medium term	7,504	13,222
Deposits - Long term	-	500
	<b>8,679</b>	18,778

The Association is required by the Isle of Man Government Insurance and Pensions Authority to hold £100,000 with a bank licensed under the provisions of the Isle of Man Banking Acts, 1975 to 1986.

The cash and short term deposits all mature within 30 days and carry interest at rates between 1% and 6% for Sterling (2008: 6% and 7%), 0% and 0% for Euros (2008: 4% and 5%) and between 0% and 0% for US dollars. (2008: 0% and 0%).

The medium term deposits all mature between 30 days and 1 year and carry interest at rates between 6% and 7% for Sterling (2008: 5% and 7%), 5% and 5% for Euros (2008: 4% and 5%) and between 0% and 0% for US dollars. (2007: 0% and 4%).

The long term deposits all mature between 1 and 2 years and carry interest at rates between 0% and 0% for Sterling (2008: 0% and 7%), 0% and 0% for Euros (2008: 0% and 0%) and between 0% and 0% for US dollars. (2008: 0% and 0%).

### (ii) Investments

	<b>Market Value</b>		<b>Cost</b>	
	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Listed				
Government stocks	10,457	10,955	7,592	8,050
Unit trusts	3,276	2,015	3,295	2,950
Other Securities	19,140	20,248	9,901	10,273
UCITS	7,261	7,264	2,063	2,078
	<b>40,134</b>	40,482	<b>22,851</b>	23,351

The listed investments are all quoted on major recognised international stock exchanges. No loans have been made to Directors, Officers or Managers, and none is contemplated.

## Notes to the financial statements (continued)

For the year ended 20 February, 2009

### 8. Cash and investments (continued)

(ii) The Association's investment policy requires, that at the time of purchase, bonds have a credit rating of A minus or better. The market value of investments in bonds and government stocks may be affected by changes in prevailing levels of interest rates. At the balance sheet date the investments in UCITS and stocks have effective interest rates of between 2% and 7% and 2% and 7% respectively.

(iii) Cash and investments maturity summary

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
Cash and investments	<b>49,161</b>	42,129
	<b>2009</b> <b>%</b>	<b>2008</b> <b>%</b>
Cash and interest bearing securities repayable within one year	<b>52.82</b>	68.12
Interest bearing securities between one year and three years	<b>43.74</b>	31.88
Interest bearing securities between three years and seven years	<b>3.44</b>	-
	<b>100.00</b>	100.00
(iv) Cash and investments currency exposure	<b>2009</b> <b>%</b>	<b>2008</b> <b>%</b>
Sterling	<b>71.81</b>	69.14
U.S. dollar	<b>8.27</b>	10.67
Euro	<b>19.92</b>	20.19
	<b>100.00</b>	100.00

# Notes to the Financial Statements (continued)

For the year ended 20 February, 2009

## 9. Outstanding claims

The provision for outstanding claims consists of the estimated cost of known outstanding claims, together with a forecast of claims incurred but not reported, on risks already written.

	2009 £'000	2008 £'000
Earlier years	1,049	1,462
Policy year		
2008	13,124	-
2007	6,105	10,457
2006	4,114	5,482
2005	1,852	3,307
2004	1,683	2,451
2003	1,067	1,483
2002	639	1,048
2001	626	812
2000	389	700
1999	105	407
	<b>30,753</b>	27,609

The total of outstanding claims of £30,753,000 consists of a forecast of unreported claims of £22,193,100 and an estimate of known claims of £8,559,900.

## 10. Cash flow statement

Reconciliation of operating profit to net cash flow from operating activities.

	2009 £'000	2008 £'000
Operating profit	1,661	4,103
Decrease in accrued interest and prepaid expenses	(73)	(151)
(Decrease)/ increase in accrued expenses	(2)	8
Increase/ (decrease) in claims provision	3,144	(524)
Increase in unrealised investment gains	151	381
Decrease/ (increase) in related party balances	814	(724)
Profit on disposal of investments	(1,370)	(960)
Net cash inflow from operating activities	<b>4,325</b>	2,133

# Notes to the Financial Statements (continued)

For the year ended 20 February, 2009

## 11. Exchange rates

As at the balance sheet data £1 equals

	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>
US dollar	<b>1.4332</b>	1.9482
Euro	<b>1.1291</b>	1.3229

## 12. Reserves

	<b>Guarantee Fund</b> <b>£'000</b>	<b>Retained Earnings</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
As at 20 February 2008	100	16,531	16,631
Transfer during the year	-	1,661	1,661
As at 20 February 2009	<b>100</b>	<b>18,192</b>	<b>18,292</b>

# Notes to the Financial Statements (continued)

For the year ended 20 February, 2009

## 13. Debenture

The Association has charged by debenture certain liabilities to the United Kingdom Freight Demurrage and Defence Association Limited, to whom the Association provides reinsurance. The Association has covenanted to discharge the following liabilities:-

1. The Association's liabilities to the United Kingdom Freight Demurrage and Defence Association Limited including those under the reinsurance agreement
2. Any amount necessary to enable the United Kingdom Freight Demurrage and Defence Association Limited to meet its solvency margin, and
3. Any expenses incurred by the United Kingdom Freight Demurrage and Defence Association Limited relating to enforcing or exercising any power under the debenture.

The debenture is secured by floating charge over the Association's assets but excludes £900,000, this amount being sufficient to meet the solvency requirements of the Isle of Man Government Insurance and Pensions Authority. This replaced the old amount of £700,000 on 21 September 2007.

## 14. Related party disclosures

The Association has no share capital and is controlled by the Members. A Member is any person to whom the United Kingdom Freight Demurrage and Defence Association Limited has afforded primary insurance which is subsequently reinsured into the Association. Members of the Association are therefore also members of the United Kingdom Freight Demurrage and Defence Association Limited, under that Association's rules. At 20 February 2009 £747,000 was due to (2008: £67,000 due from) the United Kingdom Freight Demurrage and Defence Association Limited.

At 20 February 2009 £50,000 was due to the United Kingdom Defence Reinsurance Association Limited (2008: £50,000). The United Kingdom Defence Reinsurance Association Limited is a wholly owned subsidiary of the United Kingdom Freight Demurrage and Defence Association Limited.

Ms M. Boutellier-Cor and Capt. E.A. Keane, who served as Directors during the year, were employees of Member companies. Other than the insurance and membership interests of the Member companies, the Directors have no financial interests in the Association. The amounts paid to Directors during the year are detailed in Note 7. These transactions were conducted at an arms length basis.

Mr I.R. Simpson, who served as a Director during the year was also a Director of the Managers, Havelock Insurance Management Limited during the year. Havelock Insurance Management Limited provided the services detailed in Note 6 and the amounts paid to the Managers during the year are disclosed in the Income and Expenditure Account. These transactions were conducted at an arms length basis.

# Managers and Secretary

For the year ended 20 February, 2009

## Havelock Insurance Management Limited

### Address

16/17 Mount Havelock,  
Douglas,  
Isle of Man.  
IM1 2QG

### Secretary

Havelock Insurance Management Limited

### Registered office

16/17 Mount Havelock,  
Douglas,  
Isle of Man.  
IM1 2QG

