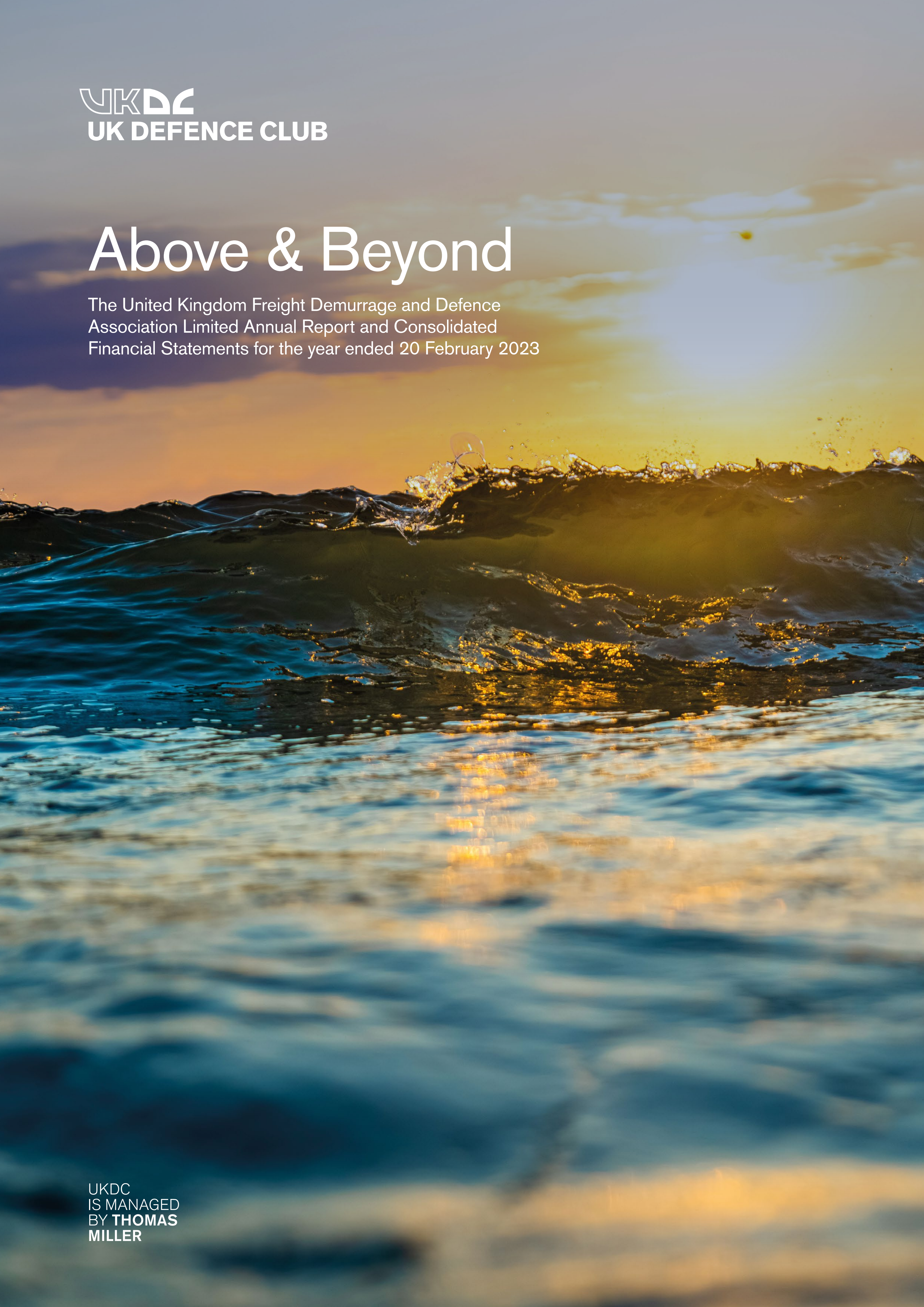
UK DEFENCE CLUB

Above & Beyond

The United Kingdom Freight Demurrage and Defence Association Limited Annual Report and Consolidated Financial Statements for the year ended 20 February 2023



UKDC IS MANAGED BY **THOMAS MILLER**

Contents

Company Number: 00501877

Directors

Directors

E. F. André	
M. Bottiglieri	Resigned 23 June 2022
I. Caroussis	
B. C. Goulandris	Chairman since June 2020
G. Goumas	
T. S. Huxley	
C. R. Kendall	
L. Zhang	
S. Laskaridi	
M. F. Lykiardopulo	
B.D.R. Maclehose	
I. Al Nadhairi	
M. Nomikos	
P. Pappas	
M. G. Pateras	
C. Rychly	Appointed on 15 September 2022
T. A. Stafilopatis	
Y. T. Triphyllis	
M. R. Wade	
G. D. Weston	Resigned 10 March 2022
D. J. Evans	

Company Secretary

K. P. Halpenny

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Strategic Report

The Directors present their Group Strategic Report for the year ended 20 February 2023.

Principal Activities

The United Kingdom Freight Demurrage and Defence Association Limited (“the Association”) carries on the business of mutual insurance of its Members against legal costs and expenses relating to the operation of ships entered with the Association as defined in the Rules of the Association.

Under a revised agreement dated 10 December 2021, the Association reinsures 90 per cent of its risks to 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 2023 was 4,035 (3,257 owned and 777 chartered), compared with 4,127 (3,259 owned and 868 chartered) on 20 February 2022. In terms of tonnage, the Association insured 224.5 million tonnes at 20 February 2023 compared to 230.7million tonnes at 20 February 2022.

Financial Review

As shown in the Association’s Consolidated Income and Expenditure Account on page 18, the year ended with a loss on the technical account of £0.03 million (2022: loss £0.6 million). After investment income, exchange gains/losses and taxation, there was an overall loss for the year of £0.29 million (2022: profit £0.08 million). The loss for the year was mainly caused by increased claims incurred levels in combination with foreign exchange losses in a weak Sterling environment partly offset by higher investment income on the back of a rising interest rate environment.

The Association considers its Key Performance Indicators to be its combined loss ratio and capital adequacy under the Solvency II regime. The combined loss ratio for the year stands at 100% (2022: 106%) excluding the impact of foreign currency on the Association’s results. Capital coverage is satisfactory and is further disclosed in note 4 of the financial statements.

During the year under review the Association has seen an increase in premium levels driven mainly by a weakening in Sterling relative to US Dollars. Since a large proportion of the Association’s business is written in US Dollars, the value of Sterling, relative to US Dollars, has an impact on the Association’s results and represents a risk for the Association should Sterling strengthen. To manage this risk the Association hedges its US Dollar premium income through the use of forward currency contracts as further detailed in notes 4 and 13 of the financial statements. This resulted in an other comprehensive loss of £1.6 million (2022: loss of £1.36 million) following a material weakening in Sterling which impacted the Associations open derivative contracts that hedge future premium as represented by the movement in the Association’s hedging reserve. Ancillary, the balance sheet shows a hedge reserve loss of £1.18 million. Given that these contracts are hedging future written premium, should exchange rates remain at current levels, higher premium income will offset this loss in future years.

The comprehensive loss for the year led to a reduction in the Association’s accumulated Income and expenditure account reserves (shown on the Balance Sheet of the Association, set out on page 19) from a surplus of £4.81 million at 20 February 2022 to a surplus of £4.53 million at 20 February 2023. In terms of cash flow the Association’s short-term deposits and cash and cash equivalents are sufficient to cover its net claims reserves.

Financial Review (continued)

The Association's gross claims reserves at 20 February 2023 were £28.91 million (2022: £28.64 million), an overall increase of £0.27 million in the year which was mostly offset by an increase in the Association's reinsurance claims reserves.

The reserves at 20 February 2023, together with calls made on Members after that date, are available and, in the opinion of the Directors, meet the Association's outgoings and the legal costs and other expenses of the Association's business.

The Directors consider the metrics discussed above the key performance indicators of the Association given that these indicators drive the financial wellbeing of the Association.

The Association's approach to financial risk management and a review of the principal risks and uncertainties is disclosed in note 4 of the financial statements, which includes the financial risks on climate change. The principal risks are considered to be currency risk, insurance risk and credit risk of reinsurance arrangements, the mitigation of which is further discussed in note 4. In addition to the risks discussed in note 4 the Board of the Association has identified Cyber risk and failure of IT system security as additional key risks that the Association faces. These risks, and their respective controls, are monitored by the Association's Board through review of the Association's business risk log.

Likely future developments that may affect the Association are further discussed in the Report of the Directors on page 8.

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 Association considers the long-term consequences of its decisions as part of its Own Risk and Solvency Assessment process. A key element of the Association's strategy is to provide a financially stable platform, from which to provide cover to its Members.

   Achieving that objective involves decisions on underwriting, in particular the target premium requirements for the Association; reinsurance; capital management; and investments. The considerations listed above form the cornerstone of discussions and decision making, supported by the Association's governance structure aimed at ensuring wider views are considered and all the Association's Members are treated fairly.

   As part of the Association's commitment to its Members, cases brought to the Association by its Members are considered for support by the Directors at each of the Association's Board meetings.

2. **The interests of the Association's employees**
   The full executive function of the Association is outsourced to the Thomas Miller group of companies. As such the Association has no employees.

Strategic Report (continued)

Companies Act Section 172(1) (continued)

3. **The need to foster the Association's business relationships with suppliers, customers and others.**
   IIn 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 at a competitive price. The Association targets a 100% combined loss ratio and has, in recent years, distributed excess funds back to Members by way of Continuity Credits.

   The Association outsources management of the day-to-day operations to the Thomas Miller group of companies. In this regard, the Board has established a Management Fee Committee that considers the Association's relationship with Thomas Miller. The Management Fee Committee ensures that any business conducted with Thomas Miller 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 regular 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 orientated organisation, the Association does not consider itself to have a direct material impact on the environment. The Board has established a policy on climate changes which is owned by the Association's Risk Officer that considers the risk of climate change associated with the Association. The Association considers the best interests of its Members as priority. This includes returning excess funds to its Members, but also supporting cases that will have a benefit to the wider shipping community and acting as a sounding board for industry issues through various topical conferences and seminars conducted throughout the year.

5. **The desirability of the Association maintaining a reputation for high standards of business conduct.**
   The Board has in place a conduct risk policy that applies to both the Board and the Managers and ensures that the Association does the right things for its Members 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 Members 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 a Board level.

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

Approved by the Board of Directors and signed on behalf of the Board.

K. P. Halpenny
Secretary
22 June 2023

Report of the Directors

The Directors have pleasure in presenting their Report and the Financial Statements of the Group for the year ended 20 February 2023.

Directors

The Directors who held office during the year are listed on page 4.

In accordance with the Articles of Association, all the Directors retire at the forthcoming Annual General Meeting to be held on 21 September 2023 and will be eligible for re-election.

Meetings of Directors

The Directors met on four 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.

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 considering 21 major cases during the year. The Managers also considered a substantial number of requests for support in proceedings under the authority delegated to them by the Directors and reports on those cases were presented to the Board at each meeting. Of all the requests for support formally considered by the Board, in excess of 90% received a significant measure of support from the Association, 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 approximately 3,200 case files open as at 20 February 2023. 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.

Future Developments

The Board will maintain the current strategy for the business in future years and anticipates to retain market share whilst adding to its Membership subject to its underwriting discipline.

Report of the Directors (continued)

Emerging Risks- Ukrainian War

On 24 February 2022, Russian troops started invading Ukraine. In response, multiple jurisdictions have imposed economic sanctions on Russia. This war has affected economic and global markets and continues to pose ongoing challenges to the global landscape. Whilst the Association does not have a physical presence in Russia or Ukraine, it has seen a rise in claims cost as a result of the conflict. This has mainly been driven by sanctions related risks and ships trapped in Ukrainian ports. The Association continues to keep the position under review and ensures compliance with sanction measures whilst acting for the benefit of its overall Membership.

Directors' and Officers' Liability

The Board of Directors has effected a Directors' and Officers' Liability Insurance policy to indemnify the Directors and Officers of the Association 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.

Auditor

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 auditor is unaware;
2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Association's auditor is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint BDO LLP as the Association's auditor will be proposed at the forthcoming Annual General Meeting.

Directors' Report Disclosures

The Association's financial instruments comprise its financial investments, cash, and various items arising directly from operations such as insurance and other debtors, technical provisions and creditors. The main risks arising from these financial instruments are credit risk, market risk, and insurance risk. The Association's approach to management of these risks is disclosed in note 4 of the financial statements.

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report and Report of the Directors 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 laws, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). 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 and profit or loss 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 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;
- 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.

Approved by the Board of Directors and signed on behalf of the Board.

K. P. Halpenny
Secretary
22 June 2023

Independent Auditor's Report

Independent Auditors Report to the Members of the United Kingdom Freight Demurrage and Defence Association Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 20 February 2023 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The United Kingdom Freight Demurrage and Defence Association Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 20 February 2023 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheet, the Consolidated and Parent Company Statement of Changes in Reserves, the Consolidated 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 in the United Kingdom 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 Audit, Regulatory & Risk Committee.

Independence

We were appointed by the members on 16 June 2016 to audit the financial statements for the year ended 20 February 2017 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 7 years, covering the years ended 20 February 2017 to 20 February 2023. We remain independent of the Group and the Parent Company 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 Group or the Parent Company.

Independent Auditor's Report (continued)

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 Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the Group and Parent Company'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 Group 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 (ORSA) provided by the Group. In addition, we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged the Directors as to the future assumptions over premium and claims performance embedded within the model, through discussion and comparing the assumptions to 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.

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 Group and the Parent Company'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

		2023	2022
Coverage	**100%** (2022: 100%) of Group profit before tax **100%** (2022: 100%) of Group revenue **100%** (2022: 100%) of Group total assets		
Key audit matters	Valuation of Technical Provisions & Reinsurers Share of Technical Provisions	✕	✕
Materiality	Group financial statements as a whole: **£373k** (2022: £338k) based on 2% (2022: 1.95%) of Revenue		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group'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.

Independent Auditor's Report (continued)

We deemed that the Group consisted of two components, being the Parent Company and the Subsidiary. The Parent Company was subject to a full scope audit, the other component was not significant to the Group but we carried out specific audit procedures over Revenue, Claims paid, Investments and Cash at Bank.

All audit work was performed directly by the audit engagement team with the assistance of appropriate specialists.

Key audit matters

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.

Key Audit Matter	How the scope of our audit addressed the key audit matter
Valuation of technical provisions and reinsurer's share of technical provisions see note 18 and accounting policy in note 2f The valuation of technical provisions, both gross and net of reinsurance, is a key area of estimation within the financial statements. There is a risk that inappropriate assumptions and judgements are made when determining the valuation of technical provisions. 1. Case estimates rely on: ▪ The expertise of the claims handlers and their experience of assessing claims in different jurisdictions; ▪ The correct and timely entry of claims information onto the claims system before the year end; ▪ Adjustments being made to significant year end estimates and payments being absorbed by the Association's assessment of claims IBNR. 2. IBNR modelling is reliant on: ▪ Relevant claims data being input correctly into actuarial models; and ▪ The application of appropriate actuarial techniques, judgements and assumptions. Claims handlers only provide case estimates to the next stage of authorisation, increasing the risk that case reserves may be understated. As such a greater reliance is placed on the Group's internal actuaries to reserve adequately by entering sufficient IBNR to compensate for any risk of under reserving within case estimates. 3. The Group has reduced its insurance risk through quota share and excess of loss reinsurance arrangements. Reinsurer's share of technical provisions is reliant on the assumptions and judgements applied when establishing gross technical provisions. For these reasons we considered the valuation of technical provisions to be a key audit matter	We have performed the following: **Valuation of Case Estimates:** ▪ We selected sample of claims estimates and agreed these back to supporting documentation such as legal correspondence, to assess whether case estimates are valued appropriately. ▪ Reviewed the outturn in the current year vs prior year's estimate of current year claims a to ascertain whether previous estimates were reasonable. This was done by comparing the incurred, paid and outstanding position on each of the last 10 years of account and how these positions changed from the prior year to the current year. **Cut-off of Case Reserves:** ▪ Agreed claim adjustments above performance materiality and payments before and after the year end to supporting documentation and bank statements, to assess whether these adjustments and payments were accounted for in the correct period. **Valuation of IBNR:** ▪ Reconciled the key actuarial inputs used in actuarial models to underwriting and accounting records. ▪ With the use of our internal actuarial specialists we assessed the appropriateness of the methodology, significant judgements and assumptions applied by the Association's actuarial team in the calculation of technical provisions. ▪ Reviewed the outturn of prior years' claims IBNR against previous estimates, to assess valuation of IBNR held against the subsequent claims development. ▪ Through the use of our internal actuarial specialists, we independently re-projected IBNR using historical claims data and our own actuarial techniques. **Valuation of Reinsurers' Share of Technical Provisions:** ▪ Recomputed total recoveries on the Group's quota share reinsurance arrangements through application of the ceding percentage to the technical provisions subject to quota share based on the agreement; and ▪ Assessed the accuracy and completeness of the excess of loss reinsurance calculations through identification of claims eligible for recovery and recalculating the reinsurers share in line with the excess of loss reinsurance programme. **Key observations:** Based on our audit procedures performed we consider the judgements and assumptions made in the valuation of technical provisions and reinsurer's share of technical provisions to be appropriate.

Independent Auditor's Report (continued)

Our application of materiality

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 follows:

	Group financial statements		**Parent Company financial statements**	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Materiality	373	338	366	330
Basis for determining materiality	2% of Revenue	1.95% of Revenue	2% of Revenue	1.95% of Revenue
Rationale for the benchmark applied	This has been set with reference to gross calls & premiums(Revenue) of the Group and Parent Company which reflects the overall scale of the business. Calls and premiums are a key measure that is used to consider the performance of the Group and Parent Company.			
Performance materiality	279.7	253.5	274.5	247.5
Basis for determining performance materiality	75% of financial statement materiality based on history of errors, management's attitude towards proposed adjustments and accounts subject to estimation.			

The Group and Parent Company has in place a significant amount of quota share reinsurance. This arrangement has the effect of transferring insurance premium and claims technical provisions to reinsurers. Due to the extent of these arrangements it was felt appropriate to set a financial statements materiality to determine the extent of audit procedures to be applied over gross written premiums and gross claims before these reinsurance arrangements. A specific level of materiality has been set for transactions and balances not affected by quota share reinsurance.

Specific materiality

We also determined that for line items not affected by the significant amount of quota share reinsurance agreement, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result a specific materiality of £67,000 (2022: £90,000) has been set. We determined materiality for these items based on 2% of Net Assets (2022: Net Assets). We further applied a performance materiality level of £50,200 (2022: £67,500) being 75% (2022: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Board of Directors that we would report to them all individual audit differences in excess of £18,600 (2022:£16,900). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Consolidated 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 Group and Parent Company 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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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 Group's and the Parent Company'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 Group or the Parent Company 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. 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
Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance;
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations; and
- Inspecting Board and Audit, Regulatory & Risk Committee minutes.

We considered the significant laws and regulations to be Prudential Regulation Authority Rulebook, Financial Conduct Authority Handbook, Financial Reporting Standards 102 and 103 applicable in the UK and Republic of Ireland and Companies Act 2006.

The Group 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 or litigations.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory authorities for any instances of non-compliance with laws and regulations; and
- Review of financial statement disclosures and agreeing to supporting documentation;

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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 and the Audit, Regulatory & Risk Committee Committee, regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company'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.

Based on our risk assessment, we considered the areas most susceptible to fraud to be valuation of technical provision 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; and
- Assessing significant estimates made by management for bias (refer to key audit matters section for procedures performed.

We also communicated relevant identified laws and regulations and potential 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 Parent Company'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 Parent 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 Parent Company and the Parent Company'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
27 June 2023

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

Accounts

Consolidated Income and Expenditure Account
Year ended 20 February 2023

	Notes	2023 £'000	2022 £'000
Technical Account			
Gross premiums written	5	18,688	17,268
Outward reinsurance premiums	5	(7,217)	(7,219)
Net movement in unearned premium	19	(36)	(47)
Net premiums written and earned		11,435	10,002
Claims paid		(6,016)	(5,686)
Gross amount		(14,032)	(12,738)
Reinsurers' share		8,016	7,052
Change in provision for claims		(28)	7
Gross amount		488	(862)
Reinsurers' share		(516)	869
Claims incurred, net of reinsurance	18	(6,044)	(5,679)
Net operating expenses	7	(5,423)	(4,965)
Balance on the technical account		**(32)**	**(642)**
Non-Technical Account			
Balance on the technical account		(32)	(642)
Investment income	10	169	6
Exchange (losses) / gains		(388)	716
(Loss) / surplus on ordinary activities before tax		(251)	80
Tax on activities	17	(27)	(1)
(Loss) / surplus on activities after tax and transferred to reserves		**(278)**	**79**

Consolidated Statement of Comprehensive Income
Year ended 20 February 2023

	Notes	2023 £'000	2022 £'000
(Loss) / surplus on activities after tax		(278)	79
Other comprehensive income			
Amounts recycled into surplus		1,179	(676)
Fair value loss		(2,776)	(680)
	13	(1,597)	(1,356)
Total comprehensive income for the year		**(1,875)**	**(1,277)**

All activities represent continuing activities.
The notes on pages 22 to 40 form an integral part of these Financial Statements.

Accounts

Consolidated and Parent Company Balance Sheet As at 20 February 2023

	Notes	Consolidated 2023 £'000	Consolidated 2022 £'000	Parent company 2023 £'000	Parent company 2022 £'000
ASSETS					
Investments					
Shares in subsidiary undertakings	21	-	-	3,660	3,160
Other financial investments	12	8,088	7,798	4,843	4,611
Derivative financial instruments	13	374	734	374	734
Reinsurers' share of technical provisions					
Reinsurance share of claims reserves	18	26,139	25,971	26,139	25,971
Provision for unearned reinsurance premium	19	278	153	278	153
Deferred acquisition costs		52	30	49	30
Debtors	14	1,121	470	1,023	463
Cash and cash equivalents	15	2,022	4,107	1,483	3,968
Total assets		**38,075**	**39,263**	**37,849**	**39,090**
RESERVES					
Income and expenditure account		4,527	4,806	4,453	4,797
Hedging reserve	13	(1,177)	420	(1,177)	420
Total reserves		**3,350**	**5,226**	**3,276**	**5,217**
LIABILITIES					
Technical provisions					
Claims reserves	18	28,912	28,640	28,708	28,498
Unearned premium provision	19	361	200	354	200
Derivative financial instruments	13	2,055	141	2,055	141
Creditors	16	3,397	5,056	3,456	5,034
Total liabilities		34,725	34,037	34,573	33,873
Total liabilities and reserves		**38,075**	**39,263**	**37,849**	**39,090**

During the current year, the operations of the parent company resulted in a loss for the year of £0.35 million (2022: surplus of £0.06 million).

The financial statements of The United Kingdom Freight Demurrage and Defence Association Limited, registration number 00501877, were approved by the Board of Directors and authorised for issue on 22 June 2023. They were signed on its behalf by:

Directors: B. Goulandris | C. R. Kendall

Managers: D. J. Evans

The notes on pages 22 to 40 form an integral part of these Financial Statements.

Consolidated Statement of Changes in Reserves Year ended 20 February 2023

	Attributable to members		
	£'000 Income and expenditure account	£'000 Hedging reserve	£'000 Total
Balance at 20 February 2021	4,727	1,776	6,503
Surplus for the year	79	-	79
Other comprehensive income for the year	-	(1,356)	(1,356)
Total comprehensive income for the year	**79**	**(1,356)**	**(1,277)**
Balance at 20 February 2022	4,806	420	5,226
Loss for the year	(278)	-	(278)
Other comprehensive income for the year	-	(1,597)	(1,597)
Total comprehensive income for the year	**(278)**	**(1,597)**	**(1,875)**
Balance at 20 February 2023	**4,528**	**(1,177)**	**3,350**

Parent Company Statement of Changes in Reserves Year ended 20 February 2023

	Attributable to members		
	£'000 Income and expenditure account	£'000 Hedging reserve	£'000 Total
Balance at 20 February 2021	4,737	1,776	6,513
Surplus for the year	60	-	60
Other comprehensive income for the year	-	(1,356)	(1,356)
Total comprehensive income for the year	**60**	**(1,356)**	**(1,296)**
Balance at 20 February 2022	4,797	420	5,217
Loss for the year	(344)	-	(344)
Other comprehensive income for the year	-	(1,597)	(1,597)
Total comprehensive income for the year	**(345)**	**(1,597)**	**(1,941)**
Balance at 20 February 2023	**4,453**	**(1,177)**	**3,276**

The notes on pages 22 to 40 form an integral part of these Financial Statements.

Consolidated Cash Flow Statement
Year ended 20 February 2023

	Notes	2023 £'000	2022 £'000
Operating activities			
Calls and premiums received		18,533	17,868
Reinsurance premium paid		(8,888)	(4,001)
Claims paid		(14,000)	(12,520)
Reinsurance recoveries received		8,016	7,052
Acquisition costs		(969)	(806)
Operating expenses paid		(5,021)	(4,182)
Interest and dividends received		169	6
Taxation paid		(8)	(6)
Net cash used in operating activities		**(2,168)**	**3,411**
Investing activities			
Purchase of investments		(11,945)	(15,541)
Sale of investments		11,668	12,236
Net cash provided in investing activities		**(277)**	**(3,305)**
Net (decrease) / increase in cash and cash equivalents		**(2,445)**	**106**
Cash and cash equivalents at the beginning of the year		4,107	4,025
Effect of exchange rate fluctuations on cash and cash equivalents		360	(24)
Cash and cash equivalents at the end of the year		**2,022**	**4,107**

The notes on pages 22 to 40 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Constitution and General Information
The Association is incorporated in England as a private company limited by guarantee and not having a share capital.

In the event of the Association'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.

The Association's principal activities are further described in the strategic report.

2. Accounting Policies
a) Accounting disclosures
The financial statements are prepared on an annual basis under the historical cost convention as modified to include certain items at fair value, and in accordance with Financial Reporting Standard ("FRS") 102 – "Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" and FRS 103 – "Insurance contracts" issued by the Financial Reporting Council.

These financial statements which consolidate the financial statements of the Association and its subsidiary undertakings have been prepared under the Companies Act 2006. The Association and its subsidiary undertakings have applied uniform accounting policies and on consolidation all intra-group transactions, profits, and losses have been eliminated. In the parent company Balance Sheet, shares in subsidiary undertakings are shown at cost less any provision for impairment.

The functional currency of the Association is considered to be pounds sterling because that is the currency of the primary economic environment in which the Association operates. This has been selected on the basis that materially all of the Association's claims and expenses are paid in pounds sterling, and the Association's main reinsurance contract with UKDIA is denominated in pounds sterling.

The Association has taken exemption from presenting a parent profit and loss account under section 408 of Companies Act 2006. The Association has taken exemption from presenting a parent Statement of Cash Flows under section 1.12(b) of FRS 102.

The Financial Statements have been prepared on a going concern basis. The Directors consider it appropriate to adopt the going concern basis of accounting in the preparation of these Financial Statements and are not aware of any material uncertainties to the Association's ability to continue to do so for at least 12 months from the date of authorisation of these Financial Statements.

b) Foreign currencies
Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. The resulting difference is treated as unrealised. The costs of investments are translated into sterling at the rate applicable for the date on which they were purchased.

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

All exchange gains/losses other than on forward exchange contracts that are designated and qualify as hedges (see 2(g)), whether realised or unrealised have been included in the Consolidated Income and Expenditure Account for the year.

c) Gross premiums written
Calls and premiums are presented net of return premiums and continuity credits and 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. Continuity credits represent a reduced premium amount for longstanding Members and are recognised as part of the related premium amount.

d) Outward reinsurance premiums
Outward reinsurance premiums are the total payable in respect of excess of loss and quota share reinsurances for the period to which the relevant contracts relate. Quota share reinsurance premiums are subject to an agreed discount, the rate of which for each policy year is agreed with UKDIA.

The agreed discount is recognised in the Consolidated Income and Expenditure Account when corresponding reinsurance premiums are recognised.

(e) Unearned premiums
Premiums written during the financial year are earned as revenue on a daily pro-rata basis over the period of cover provided, in line with the incidence of risk. Amounts relating to periods after the year end are treated as unearned and included within liabilities on the statement of financial position.

2. Accounting Policies (continued)

(f) 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. The Directors' estimate for these future claims is based on the estimate of unreported claims on each policy year. The estimates are calculated by comparing the pattern of claims payments and estimates in current policy years with earlier policy years, and then projecting the outcomes of the more recent years.

The Association utilises a variety of actuarial techniques to determine its ultimate liability which include development factor methods, Bornhuetter-Ferguson methods and a bootstrapping methodology. These techniques assume that the future will be broadly similar to the past.

The Association assesses at the end of each reporting period whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, the entire deficiency is recognised in the Consolidated Income and Expenditure Account.

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.

The Association enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of the reinsurance contract.

The Association's gross and reinsurance Technical Provisions include a provision for claims Incurred But Not Reported "(IBNR").

(g) Other financial investments

The Association has applied the requirements of FRS 102 sections 11 and 12 to the measurement, presentation and disclosure of its financial assets. Investments in short term deposit funds and the foreign exchange security deposit are designated in the Balance Sheet at fair value through profit and loss. Fair value is calculated using the bid price at the close of business on the balance sheet date.

Those purchased in foreign currencies are translated into sterling on the date of purchase. The fair value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date.

(h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges of a highly probably forecast transaction is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the Consolidated Income and Expenditure Account. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised directly in the Consolidated Income and Expenditure Account.

Amounts accumulated in reserves are recycled to surplus in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in Other Comprehensive Income and is recognised when the forecast transaction is ultimately recognised in the Consolidated Income and Expenditure Account.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in Other Comprehensive Income is immediately transferred to the Consolidated Income and Expenditure Account.

2. Accounting Policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

(j) Debtors

Debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and include Members' contributions, claims deductibles recoverable from Members and reinsurance receivables. Debtors are carried at cost less impairment. Debtors are reviewed for impairment as part of an ongoing and annual review.

(k) 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 fair 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 given the Association mono-line nature.

(k) 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 FRS 102 section 29. Currently no timing differences exist that results in any deferred tax assets or liabilities.

3. Critical accounting estimates and judgements

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. The outcome on claims can significantly deviate from both initial estimates and the estimates as disclosed in the financial statements. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. For further detail refer to note 2(e) and note 18.

4. 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, liquidity risk and operational risk.

The Board and Managers have sought to establish and embed risk management procedures within the Association through a Compliance manual, an internal quality management system and a risk management framework which considers and logs potential risks and how they are to be managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function and various committees.

The Association manages the risks relating to the operations of the Association through internal risk reports which analyse exposures by degree and magnitude of 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.

Due to the Association's revenue being materially received in US Dollars, the Association has implemented a hedging strategy whereby the Association uses forward contracts to mitigate the potential currency risk on its future premium income. Forward currency contracts have been designated as hedging instruments and the Association regards its future premium income as a highly probable forecast transaction and has designated it as a hedged item under hedge accounting requirements. This relationship has been designated by the Association as cash flow hedges and is monitored by the Association's Board of Directors. In addition, the Association utilises an investment mandate that matches the currency of its assets and liabilities.

The profile of the Association's assets and liabilities, categorised by settlement currency, at their translated carrying amount, is set out below. Certain amounts may depend on a different underlying currency.

4. Financial Risk Management (continued)
Market risk (continued)

As at 20 February 2023	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Short term deposit funds	2,309	324	-	2,633
Foreign exchange security deposit	4,222	-	-	4,222
Fixed income securities	1,233	-	-	1,233
Net derivative financial instruments	26,401	(28,082)	-	(1,681)
Reinsurers' share of technical provisions	17,798	4,330	4,011	26,139
Unearned reinsurance premium	278	-	-	278
Debtors	100	1,331	(310)	1,121
Deferred acquisition costs	52	-	-	52
Cash and cash equivalents	1,268	744	10	2,022
Technical provisions	(19,707)	(4,767)	(4,438)	(28,912)
Unearned premium	(361)	-	-	(361)
Creditors	(3,139)	(103)	(155)	(3,397)
	30,454	**(26,223)**	**(882)**	**3,350**

As at 20 February 2022	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Short term deposit funds	2,200	287	-	2,487
Foreign exchange security deposit	3,861	-	-	3,861
Fixed income securities	1,450	-	-	1,450
Net derivative financial instruments	28,681	(28,088)	-	593
Reinsurers' share of technical provisions	17,689	4,297	3,985	25,971
Unearned reinsurance premium	153	-	-	153
Debtors	153	306	11	470
Deferred acquisition costs	30	-	-	30
Cash and cash equivalents	2,907	560	640	4,107
Technical provisions	(19,514)	(4,731)	(4,395)	(28,640)
Unearned premium	(200)	-	-	(200)
Creditors	(4,717)	(66)	(273)	(5,056)
	32,693	**(27,435)**	**(32)**	**5,226**

4. Financial Risk Management (continued)

Market risk (continued)

A 5 per cent strengthening / weakening of the following currencies against sterling would be estimated to have increased/ (decreased) the surplus before tax, reserves and Other Comprehensive Income ("OCI") at the year-end by the following amounts:

As at 20 February 2023	Strengthening		Weakening	
	Effect on OCI £'000	Effect on surplus after tax £'000	Effect on OCI £'000	Effect on surplus after tax £'000
Dollar	(1,182)	(203)	1,069	175
Euro		(44)	-	44

As at 20 February 2022	Effect on OCI £'000	Effect on surplus after tax £'000	Effect on OCI £'000	Effect on surplus after tax £'000
Dollar	(1,305)	(297)	1,511	363
Euro	-	(2)	-	2

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 objective is to reduce credit risk through the risk management techniques discussed below.

The Association's exposure primarily relates to amounts recoverable from reinsurance contracts, debtors and bank balances. Exposure to reinsurance counterparties is mitigated by the Association placing its excess of loss reinsurances with counterparties rated A- or better. On its 90% reinsurance programme, given that UKDIA is unrated, the Association has the benefit of a legal charge in the form of a fixed charge debenture over UKDIA's assets which mitigate the Association's exposure to Reinsurers' share of technical provisions. 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.

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

The credit rating bands are provided by independent ratings agencies:

As at 20 February 2023	AAA £'000	AA - A £'000	Not rated / not readily available £'000	Total £'000
Short term deposit funds	1,876	757	-	2,633
Foreign exchange security deposit	-	4,222	-	4,222
Fixed income securities		1,233	-	1,233
Derivative financial instruments	-	(1,681)	-	(1,681)
Reinsurers' share of technical provisions	-	-	26,139	26,139
Deferred acquisition costs	-	-	52	52
Debtors	-	-	1,123	1,123
Cash and cash equivalents	-	2,022	-	2,022
Total assets subject to credit risk	**1,876**	**6,553**	**27,314**	**35,743**

4. Financial Risk Management (continued)

Credit risk (continued)

As at 20 February 2022	AAA £'000	AA - A £'000	Not rated / not readily available £'000	Total £'000
Short term deposit funds	2,487	-	-	2,487
Foreign exchange security deposit		3,861	-	3,861
Fixed income securities	-	1,450	-	1,450
Derivative financial instruments	-	734	-	734
Reinsurers' share of technical provisions	-	1,947	24,177	26,124
Deferred acquisition costs	-	-	30	30
Debtors	-	-	470	470
Cash and cash equivalents	-	4,107	-	4,107
Total assets subject to credit risk	**2,487**	**12,099**	**24,677**	**39,263**

Any unrated financial assets that are past due, but not impaired are further disclosed in note 14 and are not considered to be material.

Insurance risk

The Association's risk can arise from:

1. fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
2. unexpected claims arising from a single source;
3. inaccurate pricing of risks when underwritten;
4. inadequate reinsurance protection;
5. inadequate reserves.

The objective of the Association's insurance risk management process is to support the execution of effective underwriting, reinsurance and reserving strategies which are agreed and monitored by the Association's Board.

The Association establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions. In order to minimise the risk of understating these provisions the assumptions made and actuarial techniques employed are reviewed in detail by management.

The Association considers that the liability for insurance claims recognised in the statement of financial position is adequate. However, actual experience will differ from the expected outcome.

The Association only provides legal expenses cover to its Members and as a result, no further concentration analysis of risks by cover has been performed.

Some results of sensitivity testing are set out below, showing the impact on surplus after tax, of an increase and decrease in loss ratios gross and net of reinsurance. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

	2023 £'000	2022 £'000
Increase in loss ratio by 5 percentage points		
Gross	(934)	(863)
Net	(93)	(86)

A 5 per cent decrease in the loss ratio would have an equal and opposite effect.

4. 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. The Association also has the benefit of a legal charge in the form of a debenture over UKDIA's investments and other assets.

The following table provides a maturity analysis of the Association's financial assets and liabilities representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

As at 20 February 2023	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Assets and liabilities				
Short term deposit funds	2,633	-	-	2,633
Foreign exchange security deposit	4,222	-	-	4,222
Fixed income securities	1,233	-	-	1,233
Derivative financial instruments	(1,214)	(467)	-	(1,681)
Reinsurers' share of technical provisions	6,932	14,773	4,434	26,139
Deferred acquisition costs	52	-	-	52
Debtors	1,121	-	-	1,121
Cash and cash equivalents	2,022	-	-	2,022
Technical provisions	(7,668)	(16,340)	(4,904)	(28,912)
Net unearned premium	(83)	-	-	(83)
Creditors	(3,396)	-	-	(3,396)
Total	**5,856**	**(2,034)**	**(470)**	**3,350**

As at 20 February 2022	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Assets and liabilities				
Short term deposit funds	2,487	-	-	2,487
Foreign exchange security deposit	3,861	-	-	3,861
Fixed income securities	1,450	-	-	1,450
Derivative financial instruments	667	(74)	-	593
Reinsurers' share of technical provisions	7,483	14,978	3,663	26,124
Deferred acquisition costs	30	-	-	30
Debtors	470	-	-	470
Cash and cash equivalents	4,107	-	-	4,107
Technical provisions	(8,284)	(16,517)	(4,039)	(28,840)
Creditors	(5,056)	-	-	(5,056)
Total	**7,215**	**(1,613)**	**(376)**	**5,226**

4. Financial Risk Management (continued)

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 Defence Limited as managers 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 Audit and Risk Committee. A human resource manual including all key policies have also been documented.

Financial Risks from Climate Change

In April 2019 the PRA published Supervisory Statement 3/19, “Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change”, which sets out their expectations as to how firms will manage the financial risks relating to climate change. To this end, the Association has put in place a policy for the exposure, identification and management of risk relating to climate change. As a service organisation, the Association considers that there is no direct risk for the Association to climate change given that the Association insures the legal costs that its Membership is exposed to rather than a direct exposure to climate change and related regulations, however as part of the Association’s Own Risk and Solvency Assessment (“ORSA”) process under Solvency II the risks around climate change have been included in the Association’s scenario analysis. In its scenario analysis, the Association has considered the impact of climate change regulation on its Membership and how this might impact the Association both directly and indirectly, in addition to the impact that climate change may have on the Association’s invested assets. The Association continues to monitor its claims for any underlying trends relating to the risks surrounding climate change.

Capital Management

TThe Association maintains capital, comprising of surplus and reserves, consistent with the Association’s risk appetite and the regulatory requirements. Under the Solvency 2 regime the Association has been approved by its regulator a capital benefit associated with the Association’s ability to make a contingency call to its Members.

The Association’s continues to be regulated in the United Kingdom by the Prudential Regulation Authority (“PRA”) and Financial Conduct Authority (“FCA”). Under the Solvency 2 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 all regulatory capital requirements. For the current year end, the Association maintained 255% (2022: 252%) capital coverage of its Solvency Capital Requirement on a Group basis. There have been no changes in the Association’s capital management during the current year.

Limitation of the sensitivity analyses

The sensitivity analyses above show 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.

Fair value estimations

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

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)

4. Financial Risk Management (continued)

Fair value estimations (continued)

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

As at 20 February 2023	Level 1 £'000	Level 2 £'000	Total £'000
Short term deposit funds	2,633	-	2,633
Foreign exchange security deposit	4,222	-	4,222
Fixed income securities	1,233	-	1,233
Derivative financial instruments	-	(1,681)	(1,681)
Total	**8,088**	**(1,681)**	**6,407**

As at 20 February 2022	Level 1 £'000	Level 2 £'000	Total £'000
Short term deposit funds	2,487	-	2,487
Foreign exchange security deposit	3,861	-	3,861
Fixed income securities	1,450	-	1,450
Derivative financial instruments	-	593	593
Total	**7,798**	**593**	**8,391**

Financial instruments

The table below provides an analysis of the Association's financial assets and liabilities by class of recognition:

	2023 £'000	2022 £'000
Financial assets measured at fair value through profit or loss	7,584	7,971
Financial assets measured at amortised cost	3,144	4,577
Net financial assets measured at fair value through other comprehensive income	(1,177)	420
Financial liabilities measured at amortised cost	(3,396)	(5,056)

5. Gross Premiums Written and Outward Reinsurance Premiums

	2023 £'000	2022 £'000
Gross Premiums written	18,688	17,268
Excess loss premium	(472)	(659)
90% quota share premium	(15,505)	(13,993)
Agreed discount on 90% quota share premium	8,760	7,433
	(7,217)	(7,219)

Gross Premiums Written are written directly with Members and are classified as legal costs insurance.

5. Gross Premiums Written and Outward Reinsurance Premiums (continued)

Gross Premiums Written by country of the primary assured is shown in the table below:

	2023 £'000	2022 £'000
Marshall Islands	5,055	4,394
Liberia	3,180	2,994
Singapore	1,625	1,470
China	1,040	942
Panama	818	722
Other	6,970	6,746
	18,688	17,268

The 90% quota share reinsurance premium is calculated after the impact of any excess of loss reinsurance and is subject to a discount which is agreed on an annual basis with the reinsurance quota share provider, UKDIA.

6. Gross Claims Paid

	2023 £'000	2022 £'000
Legal costs and expenses	(8,907)	(7,835)
Claims handling costs and management fee	(5,125)	(4,903)
	(14,032)	(12,738)

7. Net Operating Expenses

	Notes	2023 £'000	2022 £'000
General management		(3,506)	(3,350)
Directors' remuneration	9	(270)	(271)
Auditor's remuneration:			
Audit fees in relation to the audit of the Association's annual accounts		(154)	(153)
Non-audit fees in relation to taxation services		(3)	(3)
Brokerage		(969)	(806)
Other expenses		(725)	(596)
		(5,627)	**(5,179)**
Net operating expenses allocated to claims handling		204	214
		(5,423)	**(4,965)**

8. 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 between the different management functions and consists of acquisition costs, which include the cost of underwriting and credit control; claims handling costs; and other costs which include accounting, regulatory compliance, and general management. The fee is allocated to these functions on the basis of the underlying cost elements to the management fee which are included in amounts in notes 6 and 7.

9. Directors' Fees

	2023 £'000	2022 £'000
Aggregate emoluments	**(270)**	**(271)**

Pension contributions are not made in respect of any of the Directors. The Directors' fees for the highest paid director amounted to £30,000 (2022: £22,500).

10. Investment Income

	2023 £'000	2022 £'000
Bank deposits	57	-
Fixed income securities	20	-
Return on short term deposit funds	92	6
	169	**6**

11. Rates of Exchange

The year end rates of exchange equivalent to £1 were:	2023	2022
US dollar	1.2030	1.3583
Euro	1.1256	1.1977

12. Investments

Consolidated	Fair Value		Cost	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Fixed income securities	1,233	1,450	1,233	1,450
Short term deposit funds	2,633	2,487	2,633	2,487
Foreign exchange security deposit	4,222	3,861	4,222	3,861
Total	**8,088**	**7,798**	**8,088**	**7,798**

12. Investments (continued)

	2023 £'000	2022 £'000
Percentage of cash and interest bearing securities repayable:		
within one year	100%	100%

Parent Company

	Fair Value		Cost	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Short term deposit funds	621	750	621	750
Foreign exchange security deposit	4,222	3,861	4,222	3,861
Total	**4,843**	**4,611**	**4,843**	**4,611**

	2023 £'000	2022 £'000
Percentage of cash and interest bearing securities repayable:		
within one year	100%	100%

The foreign exchange security deposit is charged to The Royal Bank of Scotland plc and the Bank of New York Mellon, London branch, as collateral in respect of the Association's forward currency contracts.

13. Derivative financial instruments

	2023			2022		
	Contract notional amount £'000	Fair value asset £'000	Fair value liability £'000	Contract notional amount £'000	Fair value asset £'000	Fair value liability £'000
Non-hedge contracts	5,119	-	(504)	6,442	174	-
Cash flow hedges	21,282	374	(1, 551)	22,239	560	(141)
Total	**26,401**	**374**	**(2,055)**	**28,681**	**734**	**(141)**

The Association uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future income being received in United States Dollars. Future premium income is regarded as a highly probable forecast transaction and is designated as a hedged item. Forward currency contracts in relation to the hedged item are designated as a hedging instrument. The relationship between the hedged item and hedging instruments is designated as a cash flow hedge under hedge accounting requirements.

Gains and losses in reserves on forward foreign exchange contracts as at 20th February 2023 will be released to the Income and Expenditure Account over the next three years to match the receipt of future income. All amounts reported as other comprehensive income in the Consolidated Statement of Comprehensive income relate to cash flow hedges.

The hedging reserve on the Balance Sheet is represented by a net loss of £1.18 million (2022: profit of 0.42 million) on cash flow hedges as per the table above. There was no ineffective portion attributable to these hedges.

Changes in the fair value of derivatives that do not qualify for hedge accounting amounted losses of £0.68 million (2022: gains of £0.16 million) and is recognised in Consolidated Income and Expenditure Account within exchange gains and losses.

Notes to the Financial Statements (continued)

14. Debtors

	Consolidated		Parent Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Arising out of insurance operations				
Members' contributions	350	196	251	194
Claims deductibles recoverable	368	198	376	187
	718	394	627	381
Other debtors	404	76	396	82
	404	76	396	82
Total debtors	**1,122**	**470**	**1,023**	**463**

Debtors arising out of direct insurance operations include a provision for impairment of £218,000 (2022: £160,000) resulting in an increase of £58,000 in the current year (2022: decrease of £12,000). The provision for impairment is based on the likelihood of recovery of funds from Members.

Debtors arising out of direct insurance operations include an amount of £378,000 (2022: £196,000) that are past due, but not impaired.

15. Cash and cash equivalents

	Consolidated		Parent company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Cash at bank and in hand	2,022	4,107	1,483	3,968
Total cash and cash equivalents	**2,022**	**4,107**	**1,483**	**3,968**

16. Creditors

	Consolidated		Parent company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Arising out of insurance operations				
Members' contributions	(1)	-	(6)	-
Claims creditors	307	274	291	244
Due to subsidiary	-	-	217	187
Due to quota share reinsurer	2,746	4,416	2,746	4,416
	3,052	**4,690**	**3,248**	**4,847**
Other creditors				
Corporation tax payable	19	1	18	(4)
PAYE and social security	5	10	5	10
Other creditors	(1)	31	(1)	31
Accruals and deferred income	322	324	186	150
	345	366	208	187
Total Creditors	**3,397**	**5,056**	**3,456**	**5,034**

17. Taxation

Taxation is in respect of United Kingdom and Cyprus corporation tax. In the UK tax is calculated on assessable investment income and gains/losses at current rates of taxation. In Cyprus tax is calculated on the surplus for the year adjusted for non-allowable expenditure.

Analysis of tax charge for the year:	2023 £'000	2022 £'000
Corporation tax applicable tax rates	(27)	(6)
Prior year adjustment	-	5
Total current tax	(27)	(1)
Reconciliation of tax amount		
Surplus / (loss) on activities before tax	**(251)**	**80**
Surplus on activities before tax multiplied by standard rate of corporation tax	48	(14)
Effect of foreign tax rates	2	-
Non-taxable balance on technical account	(12)	(130)
Non-taxable allowances and exchange losses	(82)	140
Tax effect of expenses not allowable for tax purposes	17	(2)
Prior year adjustment	-	5
	(27)	**(1)**

The corporation tax rate in the United Kingdom is 19% (2022: 19%) and in Cyprus it is 12.5% (2022: 12.5%).

Notes to the Financial Statements (continued)

18. Technical Provisions

	Consolidated		Parent company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Technical provisions				
Gross technical provisions	28,912	28,640	28,708	28,498
Reinsurers' share of gross technical provisions	26,139	25,971	26,139	25,971
Total net technical provisions	**2,773**	**2,669**	**2,569**	**2,527**
Current	736	800	682	761
Non-Current	2,037	1,869	1,887	1,766

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 of the Directors 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 in the gross provision for claims is the difference between the provision for outstanding claims on all policy years at the beginning of the year and the equivalent provision at the end of the year, after deduction of all claims paid during the financial year and addition of new claims notified in the 2021 policy year.

The movement on net incurred claims for prior policy years saw an improvement of £209,000 (2022: improvement of £251,000). Net technical provisions include a provision for IBNR of £1.5 million (2022: £1.5 million).

Development claim tables

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Association's estimate of total claims outstanding for each policy year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

Consolidated gross estimate of ultimate claims cost attributable to policy year (£'000)

Reporting year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
- At the end of the reporting year	10,500	10,900	10,500	12,150	11,023	11,513	9,600	11,226	10,638	12,224
- One year later	10,100	13,072	10,115	9,323	9,184	10,735	9,228	9,300	9,880	
- Two years later	10,050	16,707	8,757	8,394	7,948	9,387	8,720	9,028		
- Three years later	9,643	16,591	9,179	7,717	7,264	9,495	8,109			
- Four years later	9,089	16,590	8,860	7,503	7,419	8,958				
- Five years later	8,870	15,923	8,411	7,332	7,170					
- Six years later	8,853	15,397	8,440	7,177						
- Seven years later	8,837	15,562	8,292							
- Eight years later	8,875	15,580								
- Nine years later	8,770									
Current estimate of cumulative claims	8,770	15,580	8,292	7,177	7,170	8,958	8,109	9,028	9,880	12,224
Current payments to date	8,337	14,689	7,730	6,487	6,403	8,191	6,681	6,297	4,566	2,620
Gross liability recognised on balance sheet	433	891	582	690	767	767	1,428	2,731	5,315	9,604
Total gross liability relating to the last ten policy years										23,189
Other claims liabilities										5,724
Total gross technical provisions included on balance sheet										**28,912**

18. Technical Provisions (continued)

Consolidated net estimate of ultimate claims cost attributable to policy year (£'000)

Reporting year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
- At the end of the reporting year	1,050	1,090	1,050	1,215	1,091	1,131	960	1,105	1,025	1,205
- One year later	1,010	1,260	1,012	916	893	1,030	900	930	955	
- Two years later	1,005	1,560	870	825	780	925	846	895		
- Three years later	962	1,518	905	758	715	915	798			
- Four years later	900	1,508	873	735	715	880				
- Five years later	883	1,455	840	723	710					
- Six years later	885	1,415	837	715						
- Seven years later	880	1,414	825							
- Eight years later	878	1,425								
- Nine years later	875									
Current estimate of cumulative claims	875	1,425	825	715	710	880	798	895	955	1,205
Cumulative payments to date	834	1,343	773	649	640	819	668	630	457	262
Net liability recognised on balance sheet	41	82	52	66	70	61	129	265	448	943
Total net liability relating to the last ten policy years										2,208
Other claims liability										565
Total net technical provisions included on the balance sheet										**2,773**

Parent company gross estimate of ultimate claims cost attributable to policy year (£'000)

Reporting year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
- At the end of the reporting year	10,500	10,900	10,500	12,150	11,023	11,513	9,600	11,226	9,145	12,059
- One year later	10,100	13,072	10,115	9,323	9,184	10,735	9,228	9,300	9,743	
- Two years later	10,050	16,707	8,757	8,394	7,948	9,387	8,720	9,028		
- Three years later	9,643	16,591	9,179	7,717	7,264	9,495	8,109			
- Four years later	9,089	16,590	8,860	7,503	7,419	8,958				
- Five years later	8,870	15,923	8,411	7,332	7,170					
- Six years later	8,853	15,397	8,440	7,177						
- Seven years later	8,837	15,562	8,292							
- Eight years later	8,875	15,580								
- Nine years later	8,770									
Current estimate of cumulative claims	8,770	15,580	8,292	7,177	7,170	8,958	8,109	9,028	9,743	12,059
Current payments to date	8,337	14,689	7,730	6,487	6,403	8,191	6,681	6,297	4,497	2,588
Gross liability recognised on balance sheet	433	891	562	690	767	767	1,428	2,731	5,245	9,472
Total gross liability relating to the last ten policy years										22,988
Other claims liabilities										5,721
Total gross technical provisions included on balance sheet										**28,708**

18. Technical Provisions (continued)

Parent company net best estimate of ultimate claims cost attributable to policy year (£'000)

Reporting year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
- At the end of the reporting year	1,050	1,090	1,050	1,215	1,091	1,131	960	1,105	859	1,041
- One year later	1,010	1,260	1,012	916	893	1,030	900	930	817	
- Two years later	1,005	1,560	870	825	780	925	846	895		
- Three years later	962	1,518	905	758	715	915	798			
- Four years later	900	1,508	873	735	715	880				
- Five years later	883	1,455	840	723	710					
- Six years later	885	1,415	837	715						
- Seven years later	880	1,414	825							
- Eight years later	878	1,425								
- Nine years later	875									
Current estimate of cumulative claims	875	1,425	825	715	710	880	798	895	817	1,041
Cumulative payments to date	834	1,343	773	649	640	819	668	630	388	230
Net liability recognised on balance sheet	41	82	52	66	70	61	129	265	429	811
Total net liability relating to the last ten policy years										2,007
Other claims liability										563
Total net technical provisions included on the balance sheet										**2,569**

	2023			2022		
	Gross £'000	**RI £'000**	**Net £'000**	**Gross £'000**	**RI £'000**	**Net £'000**
Movement in Consolidated technical claims provisions						
Total at the beginning of the year	28,640	25,971	2,669	27,759	25,084	2,675
Claims paid	(14,032)	(8,016)	(6,016)	(12,739)	(7,052)	(5,687)
Claims incurred during the year	13,544	7,500	6,044	13,600	7,921	5,679
Exchange differences and other movements	760	684	76	20	18	2
Total at the end of the year	**28,912**	**26,139**	**2,773**	**28,640**	**25,971**	**2,669**

19. Provision for unearned premium

	2023			2022		
	Gross £'000	RI £'000	Net £'000	Gross £'000	RI £'000	Net £'000
Movement in provision for unearned premium						
Total at the beginning of the year	200	153	47	-	-	-
Increase / (decrease) in provision	161	125	36	200	153	47
Total at the end of the year	**361**	**278**	**83**	**200**	**153**	**47**

20. 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, but one, 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. Directors' fees are disclosed in note 9.

The Association reinsures with UKDIA on a 90% quota share basis. All Members of the Association are automatically also Members of UKDIA. However, none of the Directors of the Association are Directors of UKDIA. Additionally, UKDIA operates under a separate governance and operational structure, has its own rulebook, and is therefore not considered to be a related party of the Association.

21. Investment in Subsidiary

Name of subsidiary	Country of incorporation	Class of shares held	Principal activity	Proportion of shares and voting rights
The United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited	Republic of Cyprus	Ordinary	Legal cost insurance	100%

The above subsidiary's registered office is at Theklas Lysioti, 37, GEMINI HOUSE, Office 202, 3030, Limassol, Cyprus.
The closing value of the investments is £3,660,000 (2022: £3,160,000) at the statement of financial position date with the Association having injected £500,000 (2022: £nil) of capital to its subsidiary during the year. The subsidiary cedes around 90% of its risks to the Association.

During the year, the subsidiary ceded £1.8 million (2022: £1.8 million) inwards reinsurance premium to the Association net of ceding commission. The Association paid £685,000 (2022: £222,000) claims to its subsidiary under its reinsurance agreement. An intercompany liability of £217,000 (2022: £187,000) is included in the parent company balance sheet within creditors arising out of reinsurance operations.

In addition, the Association novated one of its policies to its subsidiary as a result of Brexit transitional arrangements.
This resulted in a loss on novation of £1,600 to the Association.

The Directors consider the value of these investments to be supported by their underlying assets. No impairment is considered to be required.

Managers

Thomas Miller Defence Limited

Directors

D. J. Evans (Chairman)
S. J. Griffiths
K. G. Moore
S. L. Murphy
W. D. van der Westhuysen

Secretary

K. P. Halpenny

Registered Office

90 Fenchurch Street
London
EC3M 4ST

Tel +44 20 7283 4646
Email: tmdefence@thomasmiller.com
Web: www.ukdefence.com

Company Number

01901412 England

ukdefence.com

The UK Defence Club
c/o Thomas Miller Defence Ltd,
90 Fenchurch Street, London EC3M 4ST
+44 207 283 4646
tmdefence@thomasmiller.com
www.ukdefence.com

Registered in England: No. 501877
UKDC is regulated in the UK by the PRA and the FCA.
Company number: 00501877