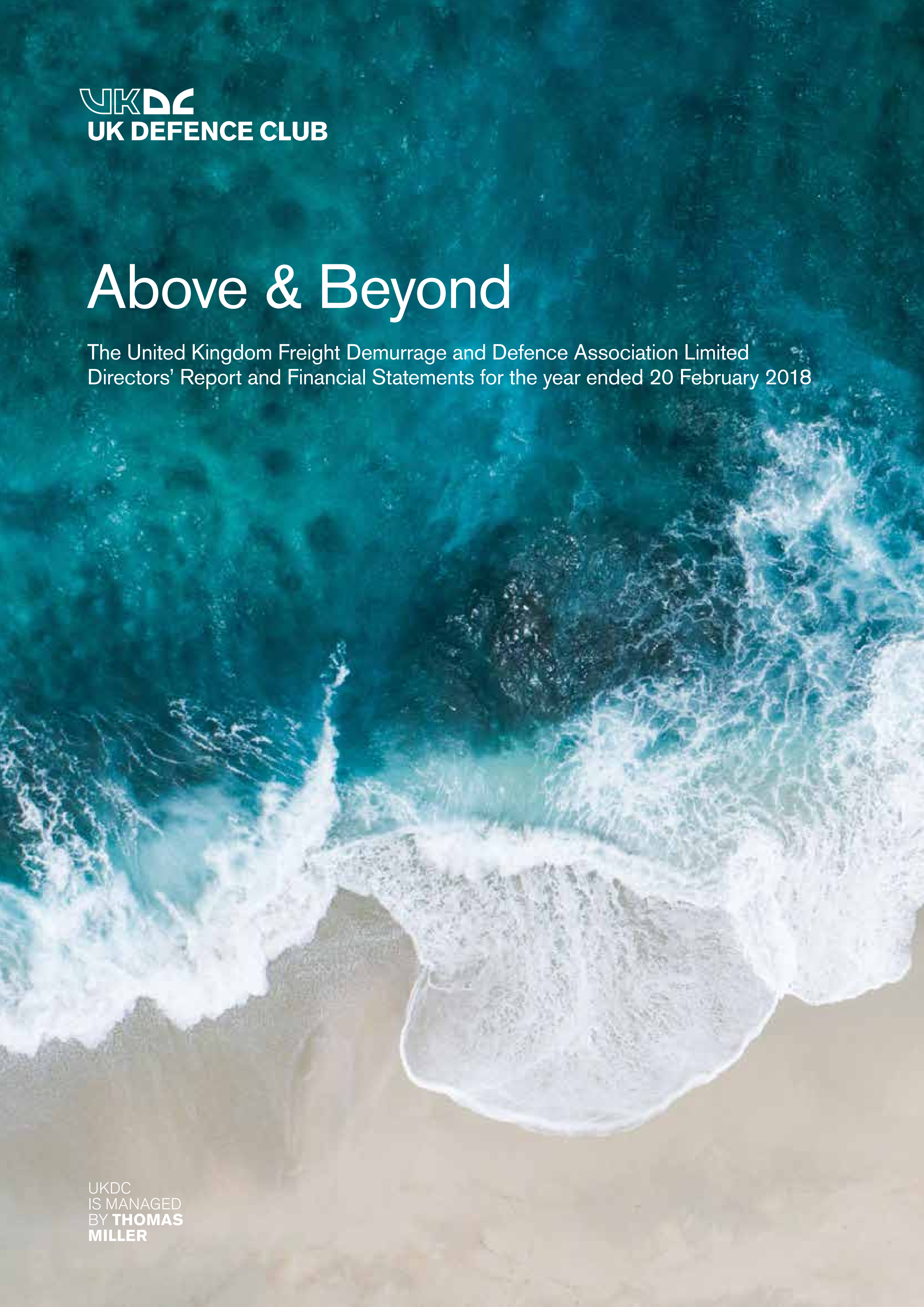

UK DEFENCE CLUB

Above & Beyond

The United Kingdom Freight Demurrage and Defence Association Limited
Directors' Report and Financial Statements for the year ended 20 February 2018

UKDC
IS MANAGED
BY **THOMAS
MILLER**

Contents

Company Number: 00501877

Directors

Directors

E. F. André	
I. Caroussis	
M. Bottiglieri	
B. C. Goulandris	
G. A. Gratsos	
T.S. Huxley	
C. R. Kendall	
T. Kudo	Appointed in April 2017
S. Laskaridis	
M. F. Lykiardopulo	Chairman to June 2017
M. Nomikos	
S. Palios	
P. Pappas	Chairman since June 2017
M. G. Pateras	
T. A. Stafilopatis	
Tan Chin Hee	Retired in April 2017
Y. T. Triphyllis	
M. R. Wade	
G. D. Weston	
G. Woodford	Retired in June 2017
Zhang Lanshui	
D.J Evans	

Company Secretary

K.P. Halpenny

Auditors

Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB

Strategic Report

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 as defined in the Rules of the Association.

Under a revised agreement dated 31 December 2015, the Association reinsures 90 per cent of its business with The United Kingdom Defence Insurance Association (Isle of Man) Limited ("UKDIA").

The number of ships entered in the Association at the year-end on 20 February 2018 was 4,200 (3,211 owned and 989 chartered), compared with 3,843 (3,029 owned and 814 chartered) on 20 February 2017, an overall increase of 9%.

Financial Review

As shown in the Association's Income and Expenditure Account on page 14, the year ended with a surplus on the technical account of £2.13 million (2017: £0.54 million surplus). After investment income, exchange gains/losses and taxation, there was an overall surplus for the year of £0.54 million (2017: £0.68 million surplus). The surplus for the year was mainly caused by favourable claims experience and a favourable exchange rate for the 2017 policy year written premium.

Immediately following the financial crisis in 2008 claims levels increased significantly. This was followed by the OW Bunkers insolvencies which resulted in a large claims exposure during the 2014 policy year. These volatile claims years put pressure on the Association's claims reserving, however the latest claims experience suggest that claims levels have reverted back to a more benign environment over recent years thus driving the Association's surplus for the year. The combined loss ratio for the year stands at 81% (2017: 95%) excluding the impact of foreign currency on the Association's results.

During the year under review the Association has seen an increase in premium levels driven in part by a weakening in Sterling. 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.

The surplus for the year led to a rise in the Association's accumulated Income and expenditure account reserves (shown on the Balance Sheet of the Association, set out on page 15) from a surplus of £4.06 million at 20 February 2017 to a surplus of £4.61 million at 20 February 2018.

The Association's gross claims reserves at 20 February 2018 were £29.82 million (2017: £33.28 million), an overall decrease of £3.45 million in the year which was mostly offset by a decrease in the Association's reinsurance claims reserves.

The reserves at 20 February 2018, 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 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. In addition to the risks discussed in note 4 the Board of the Association has identified Cyber risk and failure of IT system security, and Brexit 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 6.

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

K. P. Halpenny
Secretary
19 April 2018

Report of the Directors

The Directors have pleasure in presenting their Report and the Financial Statements of the Association for the year ended 20 February 2018.

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 20 September 2018 and will be eligible for re-election.

Meetings of Directors

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

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 34 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 cases formally considered by the Board, 93% 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 2,339 case files open as at 20 February 2018. 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.

Likely future developments that will affect the Association include the impact of Brexit on the Association's future European business activities. The Board of Directors and the Managers are currently actively considering two potential future options which will enable the Association to continue to write EU business. The first option involves establishing a subsidiary in an EU jurisdiction and the second involves writing EU business by way of a fronting arrangement. Both these options are being progressed in parallel. The final option chosen will be contingent on the costs and benefits of each and the final outcome of the Brexit negotiations.

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.

Report of the Directors (continued)

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 Moore Stephens 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
19 April 2018

Independent Auditor's Report

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

Our Opinion

We have audited the financial statements of The United Kingdom Freight Demurrage and Defence Association Limited ('The Association') for the year ended 20 February 2018 which comprise the Income and Expenditure Account, Balance Sheet, Statement of Changes in Reserves, Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" ('United Kingdom Generally Accepted Accounting Practice').

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 20 February 2018 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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

Independent Auditor’s Report (continued)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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) 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. These matters were 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 these matters.

Independent Auditor's Report (continued)

Key audit matters (continued)

Area of focus	Work performed to address this risk	Results from our work performed
Valuation of technical provisions and reinsurer's share of technical provisions 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. The Association's financial statements record gross technical provisions of £29.8m (2017: £33.3m), and net technical provisions of £2.9m (2017 £2.9m). This is made up of individual case estimates and IBNR. 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 incurred but not yet reported ('IBNR'). 2. IBNR modelling is reliant on: ▪ Relevant claims data being input correctly into actuarial models. ▪ 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 actuaries to reserve adequately by entering sufficient IBNR to compensate for any risk of under reserving within case estimates. 3. The Association has reduced its insurance risk through quota share reinsurance arrangements. Reinsurer's share of technical provisions is reliant on the assumptions and judgements applied when establishing gross technical provisions.	We have performed the following: **Valuation of Case Estimates:** ▪ Carried out a combination of controls and substantive testing on case estimates. ▪ Agreed all case estimates above our performance materiality level to supporting documentation. ▪ Reviewed the outturn of prior years' estimates against the previous year's position. **Cut-off of Case Reserves:** ▪ Tested significant claim adjustments and payments around the year end, to ensure these adjustments and payments were accounted for in the correct period. **Valuation of IBNR:** ▪ Reconciled key actuarial inputs used in actuarial models to accounting records. ▪ Assessed the methodology, significant judgements and assumptions applied by the Association's actuarial team through the use of our in-house actuarial team. ▪ Reviewed the outturn of prior years' IBNR. ▪ Independently projected the ultimate claims figure using historical claims data and actuarial techniques. **Valuation of Reinsurance share of Technical Provisions:** ▪ Recomputed recoveries on the Association's quota share reinsurance arrangements ▪ When carrying out material claims estimate work we assessed whether re-insurance recoveries had been correctly applied. ▪ Agreed excess of loss and facultative reinsurance recovery balances to agreements. ▪ Assessed the accuracy of the reinsurance calculations.	**Based on our audit procedures we have gained audit assurance that technical provisions and reinsurance share of technical provisions are fairly stated.**
Hedge Accounting The Association uses a number of foreign currency forward hedges where the US Dollar forward currency hedges offset the risk of potential currency losses on premium receivable in US dollars in 2017 and 2018. Hedge accounting is a complex area of accounting due to specific FRS 102 principles and documentation requirements in order to hedge account. It is therefore at risk of misstatement.	**We have:** ▪ Analysed hedging documentation to ensure it was in place at the inception of the hedge. This helped to ensure hedge accounting could be used. ▪ Assessed the fair value valuation of the forward contracts through recalculation of all forward contracts as at 20 February 2018 using third party forward rates. ▪ Agreed the existence and valuation of forward contracts to third party confirmations. ▪ Ensured that the hedge has been correctly recognised and disclosed in line with FRS 102.	**Hedge accounting has been correctly applied in line with FRS 102.** **The forward contracts as at 20 February 2018 are considered to be fairly valued.**

Independent Auditor's Report (continued)

Our application of materiality

In planning and performing our audit we were guided by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

The Association 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 premiums and claims before these reinsurance arrangements. A lower level of materiality has been set for transactions and balances not affected by quota share reinsurance.

Financial statements materiality was set at £360,000. The principal determinant in this assessment was the Association's gross written premium, which we consider to be the most relevant benchmark, as it reflects the overall scale of premiums and claims transactions within the accounts. Our materiality was set at 2% of this number.

The lower level of materiality has been based on net assets, as the key performance indicator for stakeholders is the economic stability of the Association. Our net materiality of £60,000 represents 2% of net assets.

We have agreed with the Audit, Regulatory and Risk Committee that we shall report to them any misstatements in excess of £18,000 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit

The audit scope is of the Association only with there being no branches or subsidiaries.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at **www.frc.org.uk/auditscopeukprivate.**

Effectiveness of the audit on the identification of possible fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Association. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions and reinsurers' share of technical provisions. Our approach to the valuation of technical provisions and reinsurers' share of technical provisions has been addressed within the areas of risk identified on page 10.

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, 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Opinion on the matters prescribed by the Companies Act 2006

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.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, or returns adequate for audit have not been received from branches not visited by us; or
- the 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 explanation we require for our audit.

Independent Auditor's Report (continued)

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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.

Matters on which we are required to address

We were appointed by the Audit Committee on 20 October 2016. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Association and we remain independent of the Association in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Alexander Barnes
Senior Statutory Auditor

For and on behalf of
Moore Stephens LLP
Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

Accounts

Income and Expenditure Account
Year ended 20 February 2018

	Notes	2018 £'000	2017 £'000
Technical Account			
Gross premiums written		21,152	18,282
Outward reinsurance premiums	5	(18,164)	(14,944)
Agreed discount on outward reinsurance premiums		8,374	6,873
		11,362	**10,211**
Claims incurred net of reinsurance	17	(4,800)	(5,434)
Net operating expenses	7	(4,428)	(4,239)
Balance on the technical account		**2,134**	**538**
Non Technical Account			
Balance on the technical account		2,134	538
Investment income	10	19	17
Exchange (losses) gains		(1,606)	131
Surplus on ordinary activities before tax		547	686
Tax on ordinary activities	16	(3)	(2)
Surplus on ordinary activities after tax and transferred to reserves		**544**	**684**

Statement of Comprehensive Income
Year ended 20 February 2018

	Notes	2018 £'000	2017 £'000
Surplus on ordinary activities after tax		544	684
Other comprehensive income			
Amounts recycled into surplus		444	1,464
Fair value profit (loss)		2,052	(1,670)
		2,496	(206)
Total funds		**3,040**	**478**

All activities represent continuing activities.
The notes on pages 18 to 32 form an integral part of these Financial Statements.

Accounts

Balance Sheet
20 February 2018

	Notes	2018 £'000	2017 £'000
ASSETS			
Investments			
Other financial investments	12	7,066	6,888
Derivative financial instruments	13	1,613	91
Reinsurers' share of technical provisions	17	26,840	30,004
Debtors	14	597	921
Cash and cash equivalents		1,624	919
Total assets		**37,740**	**38,823**
RESERVES			
Income and expenditure account		4,608	4,064
Hedging reserve		1,547	(949)
Total reserves		**6,155**	**3,115**
LIABILITIES			
Technical provisions	17	29,822	33,276
Derivative financial instruments	13	-	1,048
Creditors	15	1,763	1,384
Total liabilities		31,585	35,708
Total liabilities and reserves		**37,740**	**38,823**

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 19 April 2018. They were signed on its behalf by:

Directors: P. Pappas | C. R. Kendall

Managers: D. J. Evans

The notes on pages 18 to 32 form an integral part of these Financial Statements.

Accounts

Statement of Changes in Reserves
Year ended 20 February 2018

	Attributable to members		
	£'000 Income and expenditure account	£'000 Hedging reserve	£'000 Total
Balance at 20 February 2016	3,380	(743)	2,637
Surplus for the year	684	-	684
Other comprehensive loss for the year	-	(206)	(206)
Total comprehensive income (loss) for the year	**684**	**(206)**	**478**
Balance at 20 February 2017	4,064	(949)	3,115
Surplus for the year	544	-	544
Other comprehensive gain for the year	-	2,496	2,496
Total comprehensive income for the year	544	**2,496**	**3,040**
Balance at 20 February 2018	**4,608**	**1,547**	**6,155**

The notes on pages 18 to 32 form an integral part of these Financial Statements.

Cash Flow Statement
Year ended 20 February 2018

	Notes	2018 £'000	2017 £'000
Operating activities			
Calls and premiums received		19,014	18,812
Reinsurance premium paid		(9,510)	(7,065)
Claims paid		(12,262)	(14,251)
Reinsurance recoveries received		7,781	10,802
Acquisition costs		(1,024)	(873)
Operating expenses paid		(3,411)	(3,418)
Interest and dividends received		19	17
Taxation paid		(9)	(41)
Net cash provided by operating activities		**598**	**3,983**
Investing activities			
Purchase of investments		(16,319)	(7,936)
Sale of investments		16,150	4,470
Net cash used in investing activities		**(169)**	**(3,466)**
Net increase in cash and cash equivalents		**429**	**517**
Cash and cash equivalents at the beginning of the year		919	648
Effect of exchange rate fluctuations on cash and cash equivalents		276	(246)
Cash and cash equivalents at the end of the year		**1,624**	**919**

The notes on pages 18 to 32 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Constitution

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

In the event of the 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.

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.

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 pound sterling, and the Association's main reinsurance contract with UKDIA is denominated in pound sterling.

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 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. There are no unearned premiums as all policies expire on or before the balance sheet date.

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 overrider commission in the form of an agreed discount, the rate of which for each policy year is agreed with UKDIA.

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

e) 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 Income and Expenditure Account.

2. Accounting policies (continued)

e) Claims (continued)

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.

f) 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.

g) 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 Income and Expenditure Account. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised directly in the 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 Income and Expenditure Account.

However, 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 Income and Expenditure Account.

h) 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.

i) 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.

j) 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.

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.

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 17.

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.

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

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.

As at 20 February 2018	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Short term deposit funds	3,966	649	-	4,615
Foreign exchange security deposit	2,001	450	-	2,451
Derivative financial instruments	19,569	(17,956)	-	1,613
Reinsurers' share of technical provisions	18,774	4,609	3,457	26,840
Debtors	174	407	16	597
Cash and cash equivalents	843	698	83	1,624
Technical provisions	(20,860)	(5,121)	(3,841)	(29,822)
Creditors	(1,626)	(72)	(65)	(1,763)
	22,841	**(16,336)**	**(350)**	**6,155**

As at 20 February 2017	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Short term deposit funds	2,488	1,454	-	3,942
Foreign exchange security deposit	2,520	426	-	2,946
Derivative financial instruments	20,442	(21,399)	-	(957)
Reinsurers' share of technical provisions	20,456	5,694	3,854	30,004
Debtors	143	756	22	921
Cash and cash equivalents	271	555	93	919
Technical provisions	(23,090)	(5,821)	(4,365)	(33,276)
Creditors	(1,264)	(63)	(57)	(1,384)
	21,966	**(18,398)**	**(453)**	**3,115**

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

As at 20 February 2018	Effect on surplus after tax £'000
Dollar	(864)
Euro	(18)

As at 20 February 2017	Effect on surplus after tax £'000
Dollar	(945)
Euro	(23)

A 5 per cent weakening of these currencies against the Sterling would have an equal and opposite effect.

4. Financial Risk Management (continued)
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 external reinsurances with counterparties rated A- or better. On its 90% reinsurance programme, 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:

The credit rating bands are provided by independent ratings agencies:

As at 20 February 2018	AAA £'000	AA - A £'000	BBB £'000	Not rated / not readily available £'000	Total £'000
Short term deposit funds	4,615	-	-	-	4,615
Foreign exchange security deposit	-	450	2,001	-	2,451
Derivative financial instruments	-	917	696	-	1,613
Reinsurers' share of technical provisions	-	-	-	26,840	26,840
Debtors	-	-	-	597	597
Cash and cash equivalents	-	1,624	-	-	1,624
Total assets subject to credit risk	**4,615**	**2,991**	**2,697**	**27,437**	**37,740**

As at 20 February 2017	AAA £'000	AA - A £'000	BBB £'000	Not rated / not readily available £'000	Total £'000
Short term deposit funds	3,942	-	-	-	3,942
Foreign exchange security deposit	-	426	2,520	-	2,946
Derivative financial instruments	-	11	(968)	-	(957)
Reinsurers' share of technical provisions	-	555	-	29,449	30,004
Debtors	-	-	-	921	921
Cash and cash equivalents	-	919	-	-	919
Total assets subject to credit risk	**3,942**	**1,911**	**1,552**	**30,370**	**37,775**

4. Financial Risk Management (continued)

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.

	2018 £'000	2017 £'000
Increase in loss ratio by 5 percentage points		
Gross	(1,058)	(914)
Net	(106)	(91)

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

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.

4. Financial Risk Management (continued)

Liquidity risk (continued)

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 2018	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Assets and liabilities				
Short term deposit funds	4,615	-	-	4,615
Foreign exchange security deposit	2,451	-	-	2,451
Derivative financial instruments	834	779	-	1,613
Reinsurers' share of technical provisions	7,417	15,688	3,735	26,840
Debtors	597	-	-	597
Cash and cash equivalents	1,624	-	-	1,624
Technical provisions	(8,241)	(17,431)	(4,150)	(29,822)
Creditors	(1,763)	-	-	(1,763)
Total	**7,534**	**(964)**	**(415)**	**6,155**

As at 20 February 2017	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Assets and liabilities				
Short term deposit funds	3,942	-	-	3,942
Foreign exchange security deposit	2,946	-	-	2,946
Derivative financial instruments	(991)	34	-	(957)
Reinsurers' share of technical provisions	19,899	8,495	1,610	30,004
Debtors	921	-	-	921
Cash and cash equivalents	919	-	-	919
Technical provisions	(22,069)	(9,421)	(1,786)	(33,276)
Creditors	(1,384)	-	-	(1,384)
Total	**4,183**	**(892)**	**(176)**	**3,115**

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.

4. Financial Risk Management (continued)

Capital Management

The Association maintains capital, comprising of surplus and reserves, consistent with the Association's risk appetite and the regulatory requirements. Under the Solvency 2 regime introduced on 1 January 2016, 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.

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

In 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)

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

As at 20 February 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Short term deposit funds	4,615	-	-	4,615
Foreign exchange security deposit	2,451	-	-	2,451
Derivative financial instruments	-	1,613	-	1,613
Cash and cash equivalents	1,624	-	-	1,624
Total	**8,690**	**1,613**	**-**	**10,303**

As at 20 February 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Short term deposit funds	3,942	-	-	3,942
Foreign exchange security deposit	2,946	-	-	2,946
Derivative financial instruments	-	(957)	-	(957)
Cash and cash equivalents	919	-	-	919
Total	**7,807**	**(957)**	**-**	**6,850**

4. Financial Risk Management (continued)

Financial instruments

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

	2018 £'000	2017 £'000
Financial assets measured at fair value through profit and loss	8,690	7,807
Financial assets measured at amortised cost	597	921
Net financial assets measured at fair value through other comprehensive income	1,613	(957)
Financial liabilities measured at amortised cost	(1,763)	(1,384)

5. Outward Reinsurance Premiums

	2018 £'000	2017 £'000
Excess loss premium	(491)	(402)
90% quota share premium	(17,673)	(14,542)
	(18,164)	(14,944)

The 90% quota share reinsurance premium is subject to a discount which is agreed on an annual basis with the reinsurance quota share provider, UKDIA.

6. Gross Claims Paid

	2018 £'000	2017 £'000
Legal costs and expenses	(8,628)	(10,424)
Claims handling costs and management fee	(4,191)	(4,186)
	(12,819)	(14,610)

7. Net Operating Expenses

	Notes	2018 £'000	2017 £'000
General Management		(2,627)	(2,625)
Directors' remuneration	9	(224)	(208)
Auditor's remuneration:			
Audit fees in relation to the audit of the Association's annual accounts		(39)	(33)
Non-audit fees in relation to tax compliance services		-	(6)
Brokerage		(1,024)	(832)
Other expenses		(765)	(784)
		(4,679)	**(4,488)**
Net operating expenses allocated to claims handling		251	249
		(4,428)	**(4,239)**

8. Management Fee

The fee covers the Managers', Thomas Miller Defence Limited's, 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

	2018 £'000	2017 £'000
Aggregate emoluments	**(224)**	**(208)**

Pension contributions are not made in respect of any of the Directors. The Directors' fees for the highest paid director amounted to £21,600 during the current year.

10. Investment Income

	2018 £'000	2017 £'000
Bank deposits	3	6
Return on short term deposit funds	16	11
	19	**17**

Notes to the Financial Statements (continued)

11. Rates of Exchange

The year end rates of exchange equivalent to £1 were:	2018	2017
US dollar	1.4005	1.2431
Euro	1.1348	1.1695

12. Investments

	Fair Value		Cost	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Short term deposit funds	4,615	3,942	4,615	3,942
Foreign exchange security deposit	2,451	2,946	2,451	2,946
Total	**7,066**	**6,888**	**7,066**	**6,888**

	2018 £'000	2017 £'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

	2018			2017		
	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	595	66	-	595	-	(8)
Cash flow hedges	18,974	1,547	-	19,847	91	(1,040)
Total	**19,569**	**1,613**	**-**	**20,442**	**91**	**(1,048)**

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 2018 will be released to the Income and Expenditure Account over the next two years to match the receipt of future income.

There was no ineffective portion attributable to these hedges.

Notes to the Financial Statements (continued)

14. Debtors

	2018 £'000	2017 £'000
Arising out of insurance operations		
Members' contributions	114	(6)
Claims deductibles recoverable	158	609
	272	603
Other debtors	325	318
Total debtors	**597**	**921**

Debtors arising out of direct insurance operations include a provision for impairment of £160,000 (2017: £287,000) resulting in a decrease of £127,000 in the current year (2017: increase of £106,000).

Debtors arising out of direct insurance operations include an amount of £229,000 (2017: £622,000) that are past due, but not impaired.

15. Creditors

	2018 £'000	2017 £'000
Arising out of insurance operations		
Members' contributions (credit)	5	2
Claims creditors	369	267
Due to quota share reinsurer	1,301	1,021
	1,675	**1,290**
Other creditors		
Corporation tax payable	3	2
PAYE and social security	6	13
Other creditors	12	4
Accruals and deferred income	67	75
	88	94
Total Creditors	**1,763**	1,384

16. Taxation

Taxation is in respect of United Kingdom corporation tax on its assessable investment income and gains / losses at current rates of taxation.

Analysis of tax charge for the year:	2018 £'000	2017 £'000
Corporation tax at 20% (2017: 20%)	3	2
Claims creditors	3	2
Reconciliation of tax amount		
Surplus on ordinary activities before tax	**547**	**686**
Surplus on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 20%	109	137
Non-taxable balance on technical account	(427)	(108)
Non-taxable exchange losses	321	(27)
	3	2

17. Technical Provisions

Analysis of tax charge for the year:	2018 £'000	2017 £'000
Technical provisions		
Gross technical provisions	29,822	33,276
Reinsurers' share of gross technical provisions	26,840	30,004
Total net technical provisions	**2,982**	**3,272**
Current	824	2,170
Non-Current	2,158	1,102

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 2018 policy year.

The movement on gross incurred claims for prior policy years was an improvement of £5,115,000 (2017: deterioration of £1,424,000). The movement on net incurred claims for prior policy years was an improvement of £511,500 (2017: deterioration of £142,400).

A number of guarantees have been given in respect of legal costs relating to cases involving Members, where the Association is already committed to the costs of the cases. These costs are included in the Association's normal claims reserving process.

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.

17. Technical Provisions (continued)

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

Reporting year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
-At the end of the reporting year	10,500	12,100	11,250	10,500	10,900	10,500	12,150	10,905
- One year later	11,300	13,650	9,150	10,100	13,072	10,115	9,160	
- Two years later	12,250	12,800	8,350	10,050	15,600	8,700		
- Three years later	11,850	12,750	8,200	9,620	15,175			
- Four years later	12,758	11,700	8,125	9,000				
- Five years later	11,800	11,950	8,050					
- Six years later	11,960	12,250						
- Seven years later	11,760							
Current estimate of cumulative claims	11,760	12,250	8,050	9,000	15,175	8,700	9,160	10,905

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

Reporting year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
-At the end of the reporting year	1,050	1,210	1,125	1,050	1,090	1,050	1,215	1,091
- One year later	1,130	1,365	915	1,010	1,260	1,012	916	
- Two years later	1,225	1,280	835	1,005	1,560	870		
- Three years later	1,185	1,275	820	962	1,518			
- Four years later	1,276	1,170	813	900				
- Five years later	1,180	1,195	805					
- Six years later	1,196	1,225						
- Seven years later	1,176							
Current estimate of cumulative claims	1,176	1,225	805	900	1,518	870	916	1,091
Cumulative payments to date	1,146	1,130	713	777	1,111	591	435	142
Net liability recognised in the balance sheet	30	95	92	124	407	279	481	949
Total net liability relating to the last eight policy years								2,456
Other claims liability								526
Total net technical provisions included in the balance sheet								**2,982**

The Association has elected to disclose only eight years of claims experience data in its claims development tables as permitted by FRS 103 Insurance Contracts.

17. Technical Provisions (continued)

	2018			2017		
	Gross £'000	RI £'000	Net £'000	Gross £'000	RI £'000	Net £'000
Movement in technical provisions						
Total at the beginning of the year	33,276	30,004	3,272	28,939	26,092	2,847
Claims paid	(12,819)	(7,781)	(5,038)	(14,610)	(9,492)	(5,118)
Claims incurred during the year	9,885	5,085	4,800	17,857	12,423	5,434
Exchange differences and other movements	(520)	(468)	(52)	1,090	981	109
Total	**29,822**	**26,840**	**2,982**	**33,276**	**30,004**	**3,272**

18. Related Party Disclosures

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

All, 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 and UKDIA is not considered to be a related party of the Association.

Managers

Thomas Miller Defence Limited

Directors

D. J. Evans (Chairman)
J. W. M. Binner
A. N. Couvadelli
M. E. Cox
S. P. Geraghty
M. R. Jackson
K. G. Moore
S. L. Murphy
J. A. F. Roberts
P. M. Sessions
W. D. van der Westhuysen

Secretary

K. P. Halpenny

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