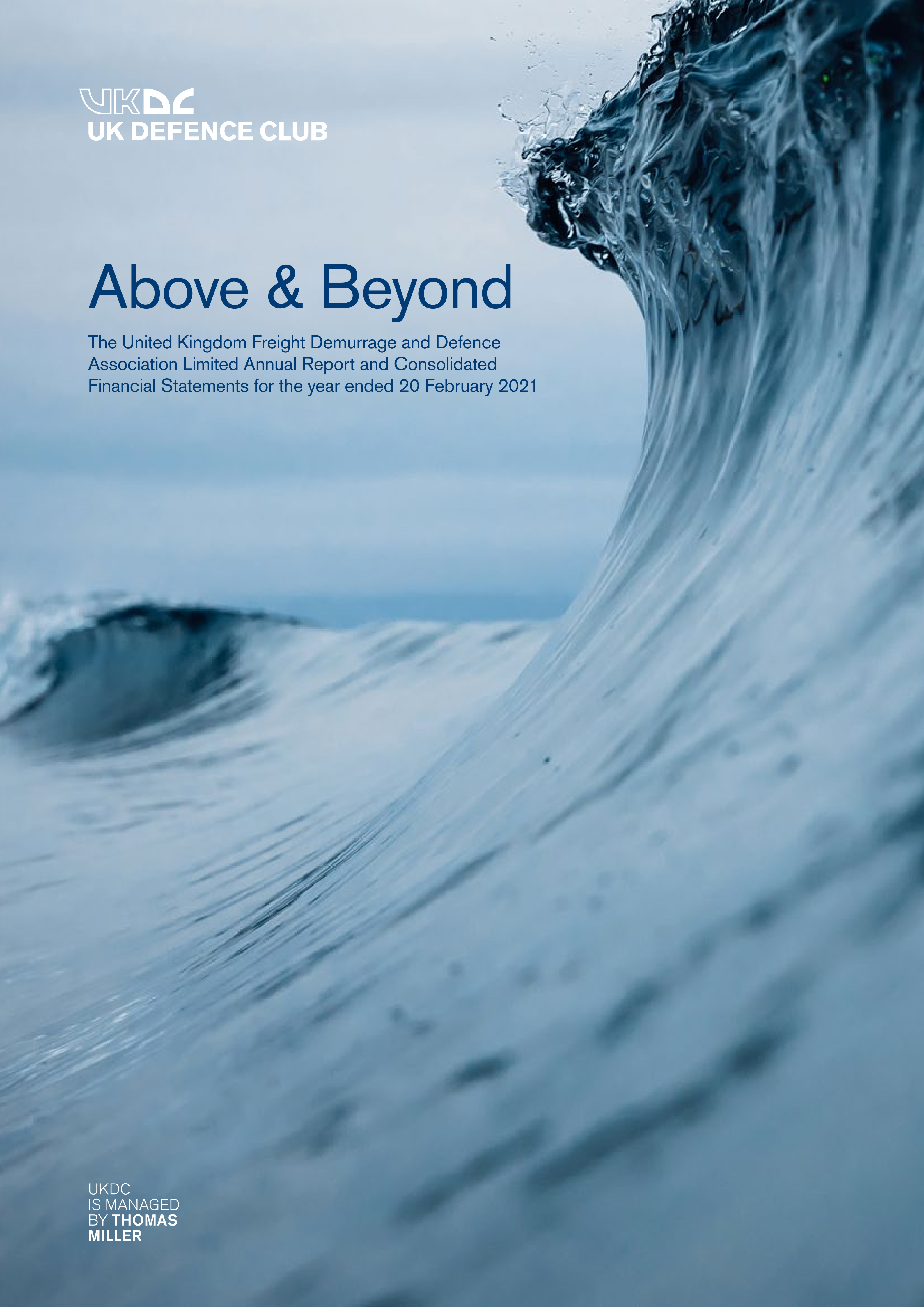
UKDC

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 2021



UKDC
IS MANAGED
BY **THOMAS MILLER**

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Company Number: 00501877

Directors

Directors

E. F. André	
M. Bottiglieri	
I. Caroussis	
B. C. Goulandris	Chairman since June 2020
G. A. Gratsos	
T. S. Huxley	
C. R. Kendall	
Z. Lanshui	
S. Laskaridi	
M. F. Lykiardopulo	
I. Al Nadhairi	Appointed 30 April 2020
M. Nomikos	
S. Palios	
P. Pappas	
M. G. Pateras	
T. A. Stafylopatis	
Y. T. Triphyllis	
M. R. Wade	
G. D. Weston	
B. Maclehose	
G. Goumas	
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 2021.

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.

During the year the Association's subsidiary, the United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited ("UKDE"), received a license to write insurance business from the Cyprus Ministry of Finance. UKDE is a Cypriot company that has been established as part of the Association's contingency planning for Brexit.

Under a revised agreement dated 31 October 2019, 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 2021 was 3,766 (3,061 owned and 705 chartered), compared with 3,721 (3,043 owned and 678 chartered) on 20 February 2020. In terms of tonnage, the Association insured 210.9 million tonnes at 20 February 2021 compared to 209.6 million tonnes at 20 February 2020.

Financial Review

As shown in the Association's Consolidated Income and Expenditure Account on page 18, the year ended with a profit on the technical account of £1.7 million (2020: £0.1 million). After investment income, exchange gains/losses and taxation, there was an overall loss for the year of £0.06 million (2020: £0.15 million surplus). The loss for the year was mainly caused by increased premium levels, more than offset by an exchange loss for the year.

The combined loss ratio for the year stands at 87% (2020: 99%) 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 mainly by a weakening in Sterling relative to US Dollars early in the year. 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 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 £4.79 million at 20 February 2020 to a surplus of £4.73 million at 20 February 2021. In terms of cash flow the Association's short-term deposits and cash and cash equivalents are sufficient to cover its net claims reserves.

The Association's gross claims reserves at 20 February 2021 were £27.76 million (2020: £29.26 million), an overall decrease of £1.50 million in the year which was mostly offset by a decrease in the Association's reinsurance claims reserves.

The reserves at 20 February 2021, 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.

Strategic Report (continued)

Financial Review (continued)

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.**
   As further outlined above, the Directors have recently elected to establish a subsidiary in Cyprus. This decision was made so that the Association can continue to write business to European Members after the transition period expired following the UK's exit from the European Union, and as such the decision has been taken with the best interests of the Members in mind. The Association's subsidiary in Cyprus, UKDE, has now been licensed to write insurance business and has therefore started to write business to European Members.

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.

3. **The need to foster the Association's business relationships with suppliers, customers and others.**
   In 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.

Strategic Report (continued)

Companies Act Section 172(1) (continued)

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's does not consider to have a 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 considers 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
24 June 2021

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 2021.

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 16 September 2021 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 24 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 2,920 case files open as at 20 February 2021. 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 future performance, in a competitive marketplace, to be in line with the previous year.

Report of the Directors (continued)

Impact of COVID-19 on The Association

COVID-19 emerged in December 2019, and was classified as a global pandemic in March 2020. Since the emergence of COVID-19, the Association has not seen any material impact to its business operations. The Association has seen some cases opened which directly or indirectly relate to COVID-19, however the Association do not consider these claims to be in excess of expectations or to represent a trend of a material increase in claims cost. Operationally, the Association has effectively implemented a remote working arrangements and was able to seamlessly continue to service its Members. From an underwriting point of view, the Association has seen no material defaults in premium obligations and the Association's most recent renewal is considered to have been conducted very successfully under remote working conditions. Finally, given that the Association is mostly invested in low risk assets, the Association's invested assets have performed satisfactorily during the past year.

As such, the Association does not consider COVID-19 to have any significant impact on its ability to continue as a going concern.

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.

Report of the Directors (continued)

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
24 June 2021

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 2021 and of the Group’s deficit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 2021 which comprise the Consolidated Income and Expenditure Account, Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Reserves, Consolidated 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 the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom 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 committee.

Independence
We remain independent of the Group and 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. The non-audit services prohibited by that standard were not provided to the Group and 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:

- Checked the solvency through reference of sufficiency of assets to meet liabilities and the adequacy of regulatory capital; and enquiries of the Directors and scrutiny of management information, board minutes and regulatory correspondence to ascertain the existence of undisclosed events or obligations that may cast doubt on the Group's ability to continue as a going concern.
- Review of the latest available Own Risk and Solvency Assessment ('ORSA') return to check compliance with regulatory solvency requirements

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 Association'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

Coverage	**100%** (2020: 100%) of Group profit before tax **100%** (2020: 100%) of Group revenue **100%** (2020: 100%) of Group total assets		
Key audit matters	Valuation of Technical Provisions & Reinsurers Share of Technical Provisions	2021 ✓	2020 ✓
Materiality	Group financial statements as a whole: **£370k** (2020: £335k) based on 2% (2020: 2%) 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.

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 and we carried out specific audit procedures over cash at bank balances.

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

Independent Auditor's Report (continued)

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.

Description of Key Audit Matter	Procedures performed to address this risk
Valuation of technical provisions and reinsurer's share of technical provisions see note 18 and accounting policy in note 2e 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. As per note 18 and accounting policy 2e (Claims) the Association's financial statements record gross technical provisions of £27.8m (2020: £29.3m), and net technical provisions of £2.7m (2020: £2.8m). This is made up of individual case estimates and claims Incurred But Not Reported ('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 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 Association's internal 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 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.	We have performed the following: **Valuation of IBNR:** ▪ Reconciled the key actuarial inputs used in actuarial models to underwriting and accounting records. ▪ With the use of our internal actuarial experts we assessed the appropriateness of the methodology, significant judgements and assumptions applied by the Association's actuarial team. ▪ Reviewed the outturn of prior years' claims IBNR against previous estimates, to assess valuation of IBNR held against the subsequent claims development. **Valuation of Case Estimates:** ▪ Agreed all case estimates above our performance materiality level to supporting documentation such as legal correspondence, to assess whether case estimates are valued appropriately. ▪ We have carried out testing on the operating effectiveness of the controls over claim estimates, ensuring that estimates are reviewed every six months and have been appropriately revised on review, where applicable. **Cut-off of Case Reserves:** ▪ Agreed claim adjustments above performance materiality and payments around 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 Reinsurers' Share of Technical Provisions:** ▪ Recomputed recoveries on the Association'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		**Association financial statements**	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Materiality	370	335	370	335
Basis for determining materiality	2% of Revenue	2% of Revenue	2% of Revenue	2% of Revenue
Performance materiality	277.5	250	277.5	250
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 Association and Group 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 (Parent Company only)

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 £65,000 (2020: £95,000) has been set. We determined materiality for these items based on 2% of Net Assets (2020: Net Assets). We further applied a performance materiality level of £48,750 (2020: £71,250) being 75% (2020: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Component materiality

Component materiality was dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality was set at $370k (2020: $335k). We further applied a performance materiality level of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit, Regulatory and Risk Committee that we would report to them all individual audit differences in excess of £18,550 (2020: £16,750). 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 accounts 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.

Independent Auditor's Report (continued)

Responsibilities of Directors

As explained more fully in the Report of the Directors, on page 8 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:

- obtaining an understanding of the legal and regulatory framework applicable to the Group's operations. We considered the significant laws and regulations to be the applicable accounting standards, Prudential Regulatory Authority ('PRA'), Financial Conduct Authority ('FCA'), Company Law and the Bribery Act 2010;
- agreement of the financial statement disclosures to underlying supporting documentation;
- assessed the susceptibility of the financial statement to material misstatement including fraud and identified the fraud risk areas to be the valuations (Refer to the key audit matters section above) and management override of controls.
- in response to the risk of management override of controls, assessed the appropriateness of journal entries which met a specific defined criteria by agreeing to supporting documentation.
- enquiries of management and those charged with governance;
- review of minutes of board meetings throughout the period;
- review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA); and
- review of the Group's ORSA.
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's Report (continued)

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

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.

Alexander Barnes
Senior Statutory Auditor

For and on behalf of;
BDO LLP Statutory Auditor
London, UK
2 July 2021

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 2021

	Notes	2021 £'000	2020 £'000
Technical Account			
Gross premiums written		19,270	16,835
Outward reinsurance premiums	5	(7,241)	(6,830)
Net premiums written and earned		12,029	10,005
Claims paid		(5,738)	(5,401)
Gross amount		(13,644)	(12,105)
Reinsurers' share		7,906	6,704
Change in provision for claims		94	131
Gross amount		1,173	1,420
Reinsurers' share		(1,079)	(1,289)
Claims incurred, net of reinsurance	18	(5,644)	(5,270)
Net operating expenses	7	(4,695)	(4,634)
Balance on the technical account		**1,690**	**101**
Non-Technical Account			
Balance on the technical account		1,690	101
Investment income	10	11	80
Exchange losses		(1,764)	(17)
(Loss) / surplus on ordinary activities before tax		(63)	164
Tax on activities	17	-	(12)
(Loss) / surplus on activities after tax and transferred to reserves		**(63)**	**152**

Consolidated Statement of Comprehensive Income
Year ended 20 February 2021

	Notes	2021 £'000	2020 £'000
(Loss) / surplus on ordinary activities after tax		(63)	152
Other comprehensive income			
Amounts recycled into surplus		807	693
Fair value gain / (loss)		1,471	(746)
		2,278	(53)
Total comprehensive income for the year		**2,215**	**99**

All activities represent continuing activities.
The notes on pages 22 to 38 form an integral part of these Financial Statements.

Accounts

Consolidated and Parent Company Balance Sheet 20 February 2021

	Notes	Consolidated 2021 £'000	Consolidated 2020 £'000	Parent company 2021 £'000	Parent company 2020 £'000
ASSETS					
Investments					
Shares in subsidiary undertakings	20	-	-	3,160	3,160
Other financial investments	12	4,508	4,541	4,508	4,541
Derivative financial instruments	13	2,109	153	2,109	153
Reinsurers' share of technical provisions	18	25,084	26,460	25,084	26,460
Debtors	14	385	412	364	412
Cash and cash equivalents	15	4,025	4,045	901	885
Total assets		**36,111**	**35,611**	**36,126**	**35,611**
RESERVES					
Income and expenditure account		4,727	4,790	4,737	4,793
Hedging reserve	13	1,776	(502)	1,776	(502)
Total reserves		**6,503**	**4,288**	**6,513**	**4,291**
LIABILITIES					
Technical provisions	18	27,759	29,261	27,759	29,261
Derivative financial instruments	13	-	647	-	647
Creditors	16	1,849	1,415	1,854	1,412
Total liabilities		29,608	31,323	29,613	31,320
Total liabilities and reserves		**36,111**	**35,611**	**36,126**	**35,611**

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 24 June 2021. They were signed on its behalf by:

Directors: B. Goulandris | C. R. Kendall

Managers: D. J. Evans

The notes on pages 22 to 38 form an integral part of these Financial Statements.

Accounts

Consolidated Statement of Changes in Reserves
Year ended 20 February 2021

	Attributable to members		
	£'000 Income and expenditure account	£'000 Hedging reserve	£'000 Total
Balance at 20 February 2019	4,638	(449)	4,189
Surplus for the year	152	-	152
Other comprehensive income for the year	-	(53)	(53)
Total comprehensive income for the year	**152**	**(53)**	**99**
Balance at 20 February 2020	4,790	(502)	4,288
Surplus for the year	(63)	-	(63)
Other comprehensive income for the year	-	2,278	2,278
Total comprehensive income for the year	**(63)**	**2,278**	**2,215**
Balance at 20 February 2021	**4,727**	**1,776**	**6,503**

Parent Company Statement of Changes in Reserves
Year ended 20 February 2021

	Attributable to members		
	£'000 Income and expenditure account	£'000 Hedging reserve	£'000 Total
Balance at 20 February 2019	4,638	(449)	4,189
Surplus for the year	155	-	155
Other comprehensive income for the year	-	(53)	(53)
Total comprehensive income for the year	**155**	**(53)**	**102**
Balance at 20 February 2020	4,793	(502)	4,291
Loss for the year	(56)	-	(56)
Other comprehensive income for the year	-	2,278	2,278
Total comprehensive income for the year	**(56)**	**2,278**	**2,222**
Balance at 20 February 2021	**4,737**	**1,776**	**6,513**

The notes on pages 22 to 38 form an integral part of these Financial Statements.

Accounts

Consolidated Cash Flow Statement
Year ended 20 February 2021

	Notes	2021 £'000	2020 £'000
Operating activities			
Calls and premiums received		16,218	16,730
Reinsurance premium paid		(7,029)	(7,352)
Claims paid		(13,672)	(12,012)
Reinsurance recoveries received		7,906	6,704
Acquisition costs		(886)	(828)
Operating expenses paid		(3,592)	(3,680)
Interest and dividends received		11	80
Taxation paid		(13)	(16)
Net cash used in operating activities		**(1,057)**	**(374)**
Investing activities			
Purchase of investments		(2,440)	(11,487)
Sale of investments		3,346	12,183
Net cash provided in investing activities		**906**	**696**
Net (decrease) / increase in cash and cash equivalents		**(151)**	**322**
Cash and cash equivalents at the beginning of the year		4,045	3,802
Effect of exchange rate fluctuations on cash and cash equivalents		131	(79)
Cash and cash equivalents at the end of the year		**4,025**	**4,045**

The notes on pages 22 to 38 form an integral part of these Financial Statements.

Accounts

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 the 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. 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 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.

2. Accounting Policies (continued)

(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 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").

(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 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)

(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 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 2021	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Short term deposit funds	651	2	-	653
Foreign exchange security deposit	3,855	-	-	3,855
Derivative financial instruments	27,343	(25,234)	-	2,109
Reinsurers' share of technical provisions	17,856	4,130	3,098	25,084
Debtors	139	206	40	385
Cash and cash equivalents	3,619	384	22	4,025
Technical provisions	(19,767)	(4,567)	(3,425)	(27,759)
Creditors	(1,497)	(170)	(182)	(1,849)
	32,199	**(25,249)**	**(447)**	**6,503**

As at 20 February 2020	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Short term deposit funds	745	1	-	746
Foreign exchange security deposit	3,795	-	-	3,795
Derivative financial instruments	31,630	(32,125)	-	(494)
Reinsurers' share of technical provisions	18,802	4,376	3,282	26,460
Debtors	99	304	10	412
Cash and cash equivalents	3,367	622	57	4,045
Technical provisions	(20,801)	(4,834)	(3,626)	(29,261)
Creditors	(1,258)	(90)	(66)	(1,415)
	36,378	**(31,746)**	**(344)**	**4,288**

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:

	Strengthening		Weakening	
As at 20 February 2021	Effect on OCI £'000	Effect on surplus after tax £'000	Effect on OCI £'000	Effect on surplus after tax £'000
Dollar	(996)	222	1,534	(221)
Euro	-	(22)	-	22

As at 20 February 2020	Effect on OCI £'000	Effect on surplus after tax £'000	Effect on OCI £'000	Effect on surplus after tax £'000
Dollar	(1,683)	104	1,537	(125)
Euro	-	(17)	-	17

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 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 2021	**AAA £'000**	**AA - A £'000**	**BBB £'000**	**Not rated / not readily available £'000**	**Total £'000**
Short term deposit funds	653	-	-	-	653
Foreign exchange security deposit		1,310	2,545	-	3,855
Derivative financial instruments	-	1,341	768	-	2,109
Reinsurers' share of technical provisions	-	-	-	25,084	25,084
Debtors	-	-	-	385	385
Cash and cash equivalents	-	4,025	-	-	4,025
Total assets subject to credit risk	**653**	**6,676**	**3,313**	**25,469**	**36,111**

As at 20 February 2020	**AAA £'000**	**AA - A £'000**	**BBB £'000**	**Not rated / not readily available £'000**	**Total £'000**
Short term deposit funds	746	-	-	-	746
Foreign exchange security deposit	-	1,260	2,535	-	3,795
Derivative financial instruments	-	(345)	(149)	-	(494)
Reinsurers' share of technical provisions	-	-	-	26,460	26,460
Debtors	-	-	-	412	412
Cash and cash equivalents	-	4,045	-	-	4,045
Total assets subject to credit risk	**746**	**4,960**	**2,386**	**26,872**	**34,964**

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

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.

	2021 £'000	2020 £'000
Increase in loss ratio by 5 percentage points		
Gross	(964)	(842)
Net	(96)	(84)

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 2021	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Assets and liabilities				
Short term deposit funds	653	-	-	653
Foreign exchange security deposit	3,855	-	-	3,855
Derivative financial instruments	886	1,223	-	2,109
Reinsurers' share of technical provisions	7,019	14,524	3,541	25,084
Debtors	385	-	-	385
Cash and cash equivalents	4,025	-	-	4,025
Technical provisions	(7,769)	(16,072)	(3,918)	(27,759)
Creditors	(1,849)	-	-	(1,849)
Total	**7,205**	**(325)**	**(377)**	**6,503**

As at 20 February 2020	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Assets and liabilities				
Short term deposit funds	746	-	-	746
Foreign exchange security deposit	3,795	-	-	3,795
Derivative financial instruments	(508)	13	-	(494)
Reinsurers' share of technical provisions	7,802	14,856	3,802	26,460
Debtors	412	-	-	412
Cash and cash equivalents	4,045	-	-	4,045
Technical provisions	(8,628)	(16,429)	(4,205)	(29,261)
Creditors	(1,415)	-	-	(1,415)
Total	**6,250**	**(1,560)**	**(403)**	**4,288**

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)

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 and plan 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 insurers 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.

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 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 276% 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

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 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Short term deposit funds	653	-	-	653
Foreign exchange security deposit	3,855	-	-	3,855
Derivative financial instruments	-	2,109	-	2,109
Cash and cash equivalents	4,025	-	-	4,025
Total	**8,533**	**2,109**	**-**	**10,642**

4. Financial Risk Management (continued)
Fair value estimations (continued)

As at 20 February 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Short term deposit funds	746	-	-	746
Foreign exchange security deposit	3,795	-	-	3,795
Derivative financial instruments	-	(494)	-	(494)
Cash and cash equivalents	4,045	-	-	4,045
Total	**8,566**	**(494)**	**-**	**8,092**

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

	2021 £'000	2020 £'000
Financial assets measured at fair value through profit or loss	8,865	8,586
Financial assets measured at amortised cost	385	412
Net financial assets measured at fair value through other comprehensive income	1,776	(494)
Financial liabilities measured at amortised cost	(1,849)	(1,415)

5. Gross Premiums Written and Outward Reinsurance Premiums

	2021 £'000	2020 £'000
Gross Premiums written	19,270	16,835
Excess loss premium	(712)	(649)
90% quota share premium	(15,905)	(13,822)
Agreed discount on 90% quota share premium	9,376	7,641
	(7,241)	(6,830)

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

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

	2021 £'000	2020 £'000
Marshall Islands	5,101	4,479
Liberia	3,434	2,854
Singapore	1,668	1,536
China	1,182	835
Panama	781	777
Other	7,104	6,354
	19,270	16,835

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

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

	2021 £'000	2020 £'000
Legal costs and expenses	(8,484)	(7,449)
Claims handling costs and management fee	(4,860)	(4,656)
	(13,644)	(12,105)

7. Net Operating Expenses

	Notes	2021 £'000	2020 £'000
General management		(2,980)	(2,883)
Directors' remuneration	9	(219)	(238)
Auditor's remuneration:			
Audit fees in relation to the audit of the Association's annual accounts		(107)	(61)
Brokerage		(886)	(828)
Other expenses		(720)	(856)
		(4,912)	**(4,866)**
Net operating expenses allocated to claims handling		218	232
		(4,695)	**(4,634)**

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

	2021 £'000	2020 £'000
Aggregate emoluments	**(219)**	**(238)**

Pension contributions are not made in respect of any of the Directors. The Directors' fees for the highest paid director amounted to £27,000 (2020: £30,000).

10. Investment Income

	2021 £'000	2020 £'000
Bank deposits	10	47
Return on short term deposit funds	1	33
	11	**80**

11. Rates of Exchange

The year end rates of exchange equivalent to £1 were:	2021	2020
US dollar	1.4013	1.2879
Euro	1.1146	1.1922

12. Investments

	Fair Value		Cost	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Short term deposit funds	653	746	653	746
Foreign exchange security deposit	3,855	3,795	3,855	3,795
Total	**4,508**	**4,541**	**4,508**	**4,541**

	2021 £'000	2020 £'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

	2021			2020		
	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	4,537	332	-	1,921	8	-
Cash flow hedges	22,805	1,776	-	29,710	145	(647)
Total	**27,342**	**2,109**	**-**	**31,631**	**153**	**(647)**

13. Derivative financial instruments (continued)

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 2021 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 profit of £1.78 million (2020: loss of £502,000) on cash flow hedges as per the table above.

There was no ineffective portion attributable to these hedges.

14. Debtors

	Consolidated		Parent Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Arising out of insurance operations				
Members' contributions	86	160	86	160
Claims deductibles recoverable	176	115	176	115
	262	275	262	275
Other debtors	123	137	102	137
	123	137	102	137
Total debtors	**385**	**412**	**364**	**412**

Debtors arising out of direct insurance operations include a provision for impairment of £172,000 (2020: £192,000) resulting in a decrease of £20,000 in the current year (2020: increase of £12,000). The provision for impairment is based on the likelihood of recovery of funds from Members. Following the current year end, one of the Members included in the provision for impairment paid a significant portion of their outstanding balance.

Debtors arising out of direct insurance operations include an amount of £211,000 (2020: £266,000) that are past due, but not impaired.

15. Cash and cash equivalents

	Consolidated		Parent company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Cash at bank and in hand	4,025	4,045	901	885
Total cash and cash equivalents	**4,025**	**4,045**	**901**	**885**

16. Creditors

	Consolidated		Parent company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Arising out of insurance operations				
Members' contributions	-	10	-	10
Claims creditors	231	189	232	189
Due to quota share reinsurer	1,198	986	1,266	986
	1,429	**1,185**	**1,498**	**1,185**
Other creditors				
Corporation tax payable	-	12	-	12
PAYE and social security	5	6	5	6
Other creditors	206	22	206	22
Accruals and deferred income	209	190	146	187
	420	230	356	227
Total Creditors	**1,849**	**1,415**	**1,854**	**1,412**

17. 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:	2021 £'000	2020 £'000
Corporation tax at 19% (2019: 19%)	-	12
Prior year adjustment	-	-
Total current tax	-	12
Reconciliation of tax amount		
(Loss) / surplus on activities before tax	**(63)**	**164**
Surplus on activities before tax multiplied by standard rate of corporation tax in the UK of 19%	(12)	31
Non-taxable balance on technical account	(321)	(19)
Non-taxable exchange losses	329	-
Tax loss not carried forward	4	-
	-	**12**

18. Technical Provisions

	2021 £'000	2020 £'000
Technical provisions		
Gross technical provisions	27,759	29,261
Reinsurers' share of gross technical provisions	25,084	26,460
Total net technical provisions	**2,675**	**2,801**
Current	749	826
Non-Current	1,926	1,975

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 2020 policy year.

The movement on net incurred claims for prior policy years was an improvement of £102,000 (2020: improvement of £283,000). Net technical provisions include a provision for IBNR of £1.6 million (2020: £1.7 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.

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

Reporting year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
- At the end of the reporting year	12,100	11,250	10,500	10,900	10,500	12,150	11,023	11,513	9,600	11,226
- One year later	13,650	9,150	10,100	13,072	10,115	9,323	9,184	10,735	9,228	
- Two years later	12,800	8,350	10,050	16,707	8,757	8,394	7,948	9,387		
- Three years later	12,750	8,200	9,643	16,591	9,179	7,717	7,264			
- Four years later	11,700	8,135	9,089	16,590	8,860	7,503				
- Five years later	11,950	8,050	8,870	15,923	8,411					
- Six years later	12,250	7,893	8,853	15,397						
- Seven years later	12,067	7,531	8,837							
- Eight years later	11,945	7,497								
- Nine years later	11,906									
Current estimate of cumulative claims	11,906	7,497	8,837	15,397	8,411	7,503	7,264	9,387	9,228	11,226
Current payments to date	11,630	7,106	8,214	14,270	7,653	6,356	5,740	6,632	4,393	2,347
Gross liability recognised on balance sheet	276	391	624	1,127	758	1,146	1,524	2,755	4,836	8,879
Total gross liability relating to the last ten policy years										22,314
Other claims liabilities										5,444
Total gross technical provisions included on balance sheet										**27,759**

18. Technical Provisions (continued)

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

Reporting year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
- At the end of the reporting year	1,210	1,125	1,050	1,090	1,050	1,215	1,091	1,131	960	1,105
- One year later	1,365	915	1,010	1,260	1,012	916	893	1,030	960	
- Two years later	1,280	835	1,005	1,560	870	825	780	925		
- Three years later	1,275	820	962	1,518	905	758	715			
- Four years later	1,170	813	900	1,508	873	735				
- Five years later	1,195	805	883	1,455	840					
- Six years later	1,225	785	885	1,415						
- Seven years later	1,198	750	880							
- Eight years later	1,185	745								
- Nine years later	1,185									
Current estimate of cumulative claims	1,185	745	880	1,415	840	735	715	925	960	1,105
Cumulative payments to date	1,163	711	821	1,301	765	636	574	663	439	235
Net liability recognised on balance sheet	22	34	58	114	75	99	141	262	461	870
Total net liability relating to the last ten policy years										2,135
Other claims liability										539
Total net technical provisions included on the balance sheet										**2,675**

18. Technical Provisions (continued)

	2021			2020		
	Gross £'000	RI £'000	Net £'000	Gross £'000	RI £'000	Net £'000
Movement in technical provisions						
Total at the beginning of the year	29,261	26,460	2,802	30,742	27,803	2,939
Claims paid	(13,644)	(7,906)	(5,738)	(12,105)	(6,704)	(5,401)
Claims incurred during the year	12,471	6,827	5,644	10,685	5,415	5,270
Exchange differences and other movements	(330)	(297)	(33)	(61)	(54)	(7)
Total at the end of the year	**27,759**	**25,084**	**2,675**	**29,261**	**26,460**	**2,801**

19. 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.

20. 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 £3,160,000 at the statement of financial position date. The subsidiary cedes 90% of its risks to the Association. During the year, the subsidiary ceded £3,000 premium to the Association. An intercompany liability of £68,000 is included in the parent company balance sheet within creditors arising out of reinsurance operations.

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)
J. W. M. Binner
S. J. Griffiths
K. G. Moore
S. L. Murphy
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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