

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

ABOVE & BEYOND

*The United Kingdom Defence Insurance Association (Isle of Man) Limited,
Directors' Report and Financial Statements for the year ended 20 February 2015*



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DIRECTORS, OFFICERS AND MANAGERS

Directors

Dr. D. L. Moore
E. Shallcross
K.L. Marshall
I.R. Jarrett
Y. Botonakis
G. Panayides (appointed 27 June 2014)

Manager

Thomas Miller (Isle of Man) Limited
Level 2
Samuel Harris House
5-11 St Georges Street
Douglas
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IM1 1AJ

Secretary

Thomas Miller (Isle of Man) Limited (appointed 23 April 2014)
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Investment Manager

Thomas Miller Investment (Isle of Man) Limited
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Registered Office

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DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and the Financial Statements of the Association for the year ended 20 February 2015.

Principal activity

Under an agreement dated 19 February 1999, the Association reinsures 90 per cent of the business of The United Kingdom Freight Demurrage and Defence Association Limited ("UKFD&D").

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

Directors

The Directors of the Association who served during the year and to date are shown on page 2.

Review of the year

Operations for the year resulted in a profit of £2,706,000 (2014 £4,458,000).

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

Market risk

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

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

Credit risk

The key areas where the Association is exposed to Credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, are

- Amounts due from UKFD&D
- Counterparty risk with respect to cash and investments

Insurance risk

The Association's risk can arise from:

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

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

Liquidity risk

The Association manages this risk by the use of liquid investments.

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004 as modified by the Insurance Act 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Secretary

On 23 April 2014 Thomas Miller (Isle of Man) Limited was appointed company secretary, replacing Havelock Insurance Management Limited which resigned on the same day.

Auditors

KPMG Audit LLC, being eligible, has indicated its willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

By Order of the Board

K.H.B. Allen
For and on behalf of
Thomas Miller (Isle of Man) Limited

Secretary
23 April 2015

Report of the independent auditor's, KPMG Audit
LLC, to the members of the United Kingdom Defence
Insurance Association (Isle of Man) Limited

We have audited the financial statements of The United Kingdom Defence Insurance Association (Isle of Man) Limited for the year ended 20 February 2015 which comprise the Income and Expenditure Account, Balance Sheet, Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 3, 4 and 5, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 20 February 2015 and of its profit for the year ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004 as modified by the Insurance Act 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 as modified by the Insurance Act 2008 require us to report to you if, in our opinion:

- proper books of account have not been kept and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's Balance Sheet and Income and Expenditure Account are not in agreement with the books of account 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.

KPMG Audit LLC

Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

23 April 2015

INCOME AND EXPENDITURE ACCOUNT

For the year ended 20 February 2015

	Notes		2015 £'000	2014 £'000
Premiums				
Premiums receivable	2a		10,130	10,359
Investment Return				
Investment income	2c, 2f, 4	843		1,132
Gains / (Losses) on investments				
Realised		633		630
Unrealised		323		(951)
			1,799	811
Claims				
	2b			
Claims paid less recoveries		(8,533)		(10,730)
Change in provision for outstanding claims		(363)		4,351
			(8,896)	(6,379)
Expenses				
Management fee	6	(265)		(270)
General and administrative expenses	5	(62)		(63)
			(327)	(333)
Profit for the year			2,706	4,458

The notes on pages 11 to 16 form an integral part of these Financial Statements.
The Association has no recognised gains or losses other than those dealt with in the Income and Expenditure Account.
The Directors consider that the above results derive from continuing activities.

BALANCE SHEET

At 20 February 2015

	Notes	2015 £'000	2014 £'000
Assets			
Investments	2e,7	51,868	46,764
Cash balances	2g	198	976
Total cash and investments		52,066	47,740
Accrued interest		92	165
Prepaid expenses		6	6
Total assets		52,164	47,911
Liabilities			
Outstanding claims	8	(25,343)	(24,980)
Related party balances	12	(1,605)	(423)
Accrued expenses		(19)	(17)
Total liabilities		(26,967)	(25,420)
Net Assets		25,197	22,491
Reserves			
Guarantee fund	9	100	100
Retained earnings	9	25,097	22,391
Total reserves		25,197	22,491

Directors

Dr D.L. Moore
I.R. Jarrett

Managers

K.H.B. Allen
For and on behalf of
Thomas Miller (Isle of Man) Limited

23 April 2015

The notes on pages 11 to 16 form an integral part of these Financial Statements.

CASH FLOW STATEMENT

For the year ended 20 February 2015

	2015 £'000	2014 £'000
Cash flow statement		
Premiums received	10,130	10,359
Claims paid	(7,351)	(12,359)
Management fee, general and administration expenses	(325)	(341)
Interest received and exchange gain	917	1,160
Net cash flow from operating activities	3,371	(1,181)
Investment purchases	(78,880)	(38,280)
Investment sales	74,731	40,334
Net cash flow from investing activities	(4,149)	2,054
Net (decrease) / increase in cash and cash equivalents	(778)	873
Operating activities		
Balance on Income and Expenditure Account	2,706	4,458
Profit on disposal of investments	(632)	(630)
Unrealised investment (gain) / loss	(323)	951
Increase / (decrease) in claims provision	363	(4,351)
Decrease in accrued interest and prepaid expenses	73	28
Increase / (decrease) in accrued expenses	2	(8)
Increase / (decrease) in related party balances	1,182	(1,629)
Net cash flow from operating activities	3,371	(1,181)

The notes on pages 11 to 16 form an integral part of these Financial Statements.

1. Constitution

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

The Association is limited by guarantee and its Members (see note 12) undertake to contribute such amounts as may be required, not exceeding one pound sterling. In accordance with the Association's Rules the Directors have the right to make special calls on Members, who had a Reinsured Entry in the current policy year and previous 4 policy years, to make good any deficit of income. Similarly, the Directors may return any surplus to the Members.

The Association assumes 90% of the retained legal costs and expenses insurance risks of The United Kingdom Freight Demurrage and Defence Association Limited ("UKFD&D") as set out in the reinsurance agreement. UKFD&D is a UK based insurance company, related through common membership.

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 to UKFD&D during the period of six years preceding the commencement of the winding-up.

2. Accounting policies

These Financial Statements are prepared in accordance with United Kingdom Accounting Standards.

Significant accounting policies are:

a) Premiums

Premiums are recorded on an accruals basis. The Association has the ability to make supplementary calls upon Members. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any adjustments in respect of prior accounting periods. There are no unearned premiums at the balance sheet date.

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

b) Claims

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

The setting of reserves is a complex process and is inherently uncertain and whilst the Directors consider that the gross provisions for claims 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 recorded in the Income and Expenditure Account of later years.

c) Foreign currencies

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

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

d) Expenses

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

e) Investments

Investments consist of bond securities, Undertakings for Collective Investments of Transferable Securities ("UCITS") and holdings in listed and unlisted funds. Bond securities consist of government stocks, unit trusts and corporate bonds. UCITS are used as an alternative to cash deposits.

Bonds and UCITS investments are stated at their market value as at the Balance Sheet date using bid prices. Listed funds consist of Absolute Return Funds which are carried at the latest published Net Asset Value within 3 months of the Balance Sheet date. Unlisted funds comprise of a holding in the "TMI Income Fund", which is carried at the most recently available Net Asset Value.

Investments purchased in foreign currencies are translated into sterling on the date of purchase. The market values of foreign currency investments are translated at the rate of exchange ruling at the Balance Sheet date.

f) Investment income

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

g) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value and are subsequently measured at cost as they have a short-term maturity.

The Association is required by the Isle of Man Government Insurance and Pensions Authority to hold £100,000 with a bank licensed under the provisions of the Isle of Man Banking Acts, 1998.

3. Taxation

The income of the Association is subject to Manx Income Tax at the rate of 0% (2014: 0%).

4. Investment income

	2015 £'000	2014 £'000
Bond interest	697	774
Bank deposit interest	12	12
Currency gains	143	354
Custody and investment managers fees	(9)	(8)
Investment income	843	1,132

5. General and administrative expenses

	2015 £'000	2014 £'000
Audit fees	18	16
Directors' fees	18	17
Directors' and officers' insurance	9	9
Directors' and managers' travel	6	14
Government fees	9	5
Printing, stationery and communications	2	1
Sundry costs	-	1
	62	63

6. Management Fee

The fee paid to the Managers of £265,000 (2014: £270,000) covers the cost of providing insurance management services, offices, staff and administration in the Isle of Man, and includes investment management services provided by a company in the same group as the Managers.

7. Investments

	Cost 2015 £'000	Market Value 2015 £'000	Cost 2014 £'000	Market Value 2014 £'000
Government and corporate bonds	33,560	33,347	28,602	28,235
Equities	9,592	10,938	6,373	7,421
Absolute return funds	3,058	3,587	4,427	4,705
UCITS	2,671	2,663	5,192	5,096
TMI Income Fund	1,250	1,333	1,250	1,307
Total investments	50,131	51,868	45,844	46,764

8. Outstanding claims

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

	2015 £'000	2014 £'000
Policy year		
2014	9,692	-
2013	5,567	9,266
2012	3,280	5,460
2011	2,152	3,797
2010	1,643	2,054
2009	952	1,218
2008 and prior	2,057	3,185
	25,343	24,980

The total of outstanding claims of £25,343,000 consists of a forecast of unreported claims of £18,718,000 and an estimate of known claims of £6,625,000.

9. Reserves

	Guarantee fund £'000	Retained earnings £'000	Total £'000
As at 20 February 2014	100	22,391	22,491
Transfer during the year	-	2,706	2,706
As at 20 February 2015	100	25,097	25,197

The Association's regulator is the Isle of Man Insurance and Pensions Authority ("IPA") in the Isle of Man. Under the IPA's regime the Association is obliged to assess and maintain the amount of net assets in excess of the required minimum solvency margin. The provisions of the Isle of Man Insurance Regulations 1986 set the minimum level of solvency required of the Association in the Isle of Man. The minimum solvency margin required at the year end was £934,800 (2014: £941,650).

At the year end the Association's capital resources included reserves of £25,197,000 (2014: £22,491,000) which exceeded the minimum solvency requirement by £24,262,200 (2014: £21,549,350). The Association, therefore, complied with the externally imposed capital requirements to which it is subject.

The Guarantee Fund represents the initial capital as required by the Isle of Man Insurance and Pensions Authority.

10. Debenture

The Association has charged by debenture certain liabilities to UKFD&D, to whom the Association provides reinsurance. The Association has covenanted to discharge the following liabilities:-

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

The debenture is secured by floating charge over the Association's assets but excludes £1,100,000, this amount being sufficient to meet the solvency requirements of the Isle of Man Government Insurance and Pensions Authority.

11. Exchange rates

	2015	2014
As at the Balance Sheet date, £1 equals		
US dollar	1.5371	1.6659
Euro	1.3521	1.2149

12. Related party disclosures and ultimate controlling parties

The Association has no share capital and is controlled by the Members. A Member is any person to whom UKFD&D has afforded primary insurance which is subsequently reinsured into the Association. Members of the Association are therefore also Members of UKFD&D, under that Association's rules. At the balance sheet date there were over 2,500 Members and therefore, no one Member is able to assert significant control.

The Association's principal activity is the business of an insurance company providing reinsurance cover to an entity under common control. Consequently, insurance premiums written and received and, claims and commission paid and provided for are considered to be related party transactions in accordance with Financial Reporting Standard No.8.

At 20 February 2015 £1,555,000 was due to UKFD&D (2014: £373,000).

At 20 February 2015, £50,000 was due to The United Kingdom Defence Reinsurance Association Limited ("UKDRA") (2014: £50,000). There was no movement in the balance during the year. UKDRA is a wholly owned subsidiary of UKFD&D.

Mr I R Jarrett was also a Director of the Managers, Thomas Miller (Isle of Man) Limited during the year. The Managers' fee is disclosed in Note 6.

The investment services are sub-contracted by the Managers to Thomas Miller Investment (Isle of Man) Limited who are in the same group as the Managers.

All related party transactions were conducted on an arm's length basis.



ABOVE & BEYOND

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Registered in the Isle of Man
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