UK DEFENCE CLUB

Above & Beyond

The United Kingdom Freight Demurrage and Defence Insurance (Europe) Ltd
Report and Financial Statements for the year ended 20 February 2022

UKDC
IS MANAGED
BY **THOMAS**
MILLER

Contents

Board of Directors and Other Officers

Board of Directors

Petros Pappas	
Daniel John Evans	
Michael G. Pateras	
Maria Savva	
Polys Hajioannou	
George Mouskas	(Appointed on 23 May 2022)

Company Secretary

Cyproman Services Ltd

Independent Auditors

Ernst & Young Cyprus Limited
Jean Nouvel Tower
6 Stasinou Avenue
1060 Nicosia
Cyprus

Registered Office

37 Theklas Lysioti
Gemini House, Flat 202
3030 Limassol
Cyprus

Bankers

Citibank Europe Plc (Netherlands)

Registration Number

HE399596

Website

www.ukdefence.com

Management Report

Principal Activities

The Board of Directors presents its report and audited financial statements of The United Kingdom Freight Demurrage and Defence Insurance (Europe) Ltd ("the Company") for the year ended 20 February 2022.

Principal activities and nature of operations of the Company
The Company was incorporated in Cyprus on 4 July 2019 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. The Company is a 100% subsidiary of The United Kingdom Freight Demurrage and Defence Association Limited, registered in the United Kingdom.

The Company's principal activity, which is unchanged from last year, is the provision of insurance to its policyholders against legal costs and expenses relating to the operation of ships entered with the Company as defined in the Rules of the Company. The Company underwrites insurance of policyholders situated in an European Economic Area state.

The Company was licensed under Article 14 of the Insurance and Reinsurance Services and Other Related Issues Laws of 2016-2017 on 19th June 2020.

Review of current position, future developments and performance of the Company's business
The financial position, development and performance of the Company as presented in these financial statements was satisfactory and in line with expectations.

The Company's gross written premiums amounted to UK£2,579,659 in 2022 (Note 7) and net incurred claims amounted to UK£167,234.

The Company earned a profit of UK£19,160 (2021: loss of UK£8,388) which met the Company's expectations for the year.

The Company's net technical reserves amounted to UK£142,776 as at 20 February 2022 (Note 14).

Shareholders' equity amounts to UK£3,168,200 as at 20 February 2022 (2021: UK£3,149,040).

Principal risks and uncertainties
The Company's approach to financial risk management and a review of the principal risks and uncertainties is disclosed in Note 5 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 5. In addition to the risks discussed in Note 5 the Board of the Company has identified Cyber risk and failure of IT system security as additional key risks that the Company faces. These risks, and their respective controls, are monitored by the Company's Board through review of the business risk log.

Future developments of the Company
The Board of Directors does not expect any significant changes or developments in the operations, financial position and performance of the Company in the foreseeable future.

Results and dividends
The Company's results for the year are set out on page 14. The Board of Directors does not recommend the payment of a dividend and net profit for the period is retained.

Share capital
There were no changes in the share capital of the Company during the year under review.

Corporate Governance
The Company recognises the importance of implementing sound corporate governance policies, practices and procedures. The Company has introduced the appropriate corporate governance practices from the inception and implemented a corporate structure that

Corporate Governance (continued)

provides effective oversight, direction and management of the business in compliance with all relevant local and international business laws that apply.

The Board of Directors and the Audit, Regulatory and Risk Committee are suitably composed by Directors having the appropriate background and experience and following their respective fully approved charters of operation. The Audit Regulatory and Risk Committee is comprised of Non-Executive and Independent Directors.

Operating environment of the Company

Covid-19 pandemic

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

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

Russia – Ukraine conflict

On 24 February 2022, Russian troops started invading Ukraine. In response, multiple jurisdictions have imposed economic sanctions on Russia. This war is increasingly affecting economic and global markets and poses ongoing challenges to the global landscape, such as rising inflation. The degree of impact depends on the nature and duration of uncertain events, such as additional sanctions and reactions to these events by financial markets. The Company does not have a presence in either Russia or Ukraine, and as such is not directly impacted by these events. Indirectly, the sanctions regime imposed on Russia could impact the Company's ability to recover premiums from Members, and pay claims to Members. The Company could be also impacted by adverse movements in foreign exchange rates and on the investment portfolio holds.

It should however be noted that the Company's Russian Membership represents an immaterial proportion of its overall book, and as such the crisis in Ukraine is not expected to impact the Company's year-end and cashflow position, nor the Company's assumption around going concern.

The financial instruments held in foreign currency are hedged at Group level and therefore the exposure from changes in the market is also limited. The Company continues to keep the position under review and ensures compliance with sanction measures whilst acting for the benefit of its overall Membership.

Climate change

Financial risks arising from climate change is a key area of focus for regulators. The Company has appointed the Risk Officer as the Senior Management Function holder with the responsibility for identifying and managing exposures from climate change and ensuring that the regulator's expectations are met.

The continuing emergence of different elements of climate change is being monitored to assess whether and to what extent they might affect future exposure for the Company. The changes imposed on the shipping industry in order to reduce the industry's impact on the environment and climate change regulation developments have, or may have, an impact on Members' existing business models. In turn, this could impact the Company's business model. The Company is likely to be most impacted during the period of adjustment whilst the industry tries to address new environmental regulations.

Management Report (continued)

Operating environment of the company (continued)

The Company has considered climate change risk as a risk that manifests through the established principal risks and cascades through the various functions of the Company (underwriting, credit, operational and financial). As such additional procedures and controls as well as updates in the existing mitigating controls have been introduced, in order to ensure that climate changes risks are identified, measured, monitored and managed, against the risk appetite and business risk model.

Board of Directors

The members of the Company's Board of Directors as at 20 February 2022 and at the date of this report are presented on page 1. Mr Mouskas has been appointed to the Board of Director on 23rd May 2022.

In accordance with the Company's Articles of Association all Directors presently members of the Board retire at the forthcoming Annual General Meeting and will be eligible for re-election.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

The Directors met on three times during the year under review, in order to fulfil the general and specific responsibilities entrusted to them under the Memorandum and Articles of Association. At those meetings the Directors received and discussed written and oral reports and recommendations from the Managers on operational, performance, risk management and strategic matters.

Name	Position	Role
Daniel John Evans	Chief Executive Officer, Director	Executive Director
Petros Pappas	Non executive and Independent Director	AR&R Committee - Member
Michail Pateras	Non executive and Independent Director	AR&R Committee - Member
Polys Hajioannou	Non executive and Independent Director	AR&R Committee - Member
Maria Savva	Chief Financial Officer, Risk Officer, Director	Executive Director
George Mouskas	Non executive and Independent Director	AR&R Committee - Member

Events after the reporting date

Any significant events that occurred after the end of the reporting date are described in Note 21 to the financial statements.

Branches

The Company did not operate through any branches during the year.

Independent Auditors

Following a competitive tender process, the Board of Directors of the Company has approved the appointment of Ernst & Young Cyprus Ltd as the independent auditors of the Company for the audit of the Financial Year 2022. This decision was approved from the shareholders of the Company during the 2021 Annual General Meeting.

The Independent Auditors, Ernst & Young Cyprus Ltd, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors,

Cyproman Services Ltd
Secretary
Nicosia, 27 May 2022

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited (the "Company") which are presented in pages 14 to 41, and comprise the statement of financial position as at 20 February 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 20 February 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 remained independent of the Company throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditor's Report (continued)

Report on the Audit of the Financial Statements

Key Audit Matters	**Audit Procedures to address the key audit matter**
Valuation of reported outstanding claims	
The total amount of reported outstanding claims as at the year ended 20 February 2022 amounts to UK£262 thousand. The total value of reported outstanding claims represents 15.4% of the Company's total liabilities.	As part of our audit procedures in relation to the valuation of reported outstanding claims and considering the related risk of management override of controls over the reported outstanding claims, we have performed the below:
The assessment of reported claims outstanding as at the year end, is one area that requires significant judgement as the assessment requires management to estimate the potential amount of legal expenses and other claims management expenses that will be incurred throughout the process of claims settlement with reference to each claim's characteristics and the resolutions for similar past cases.	We have obtained an understanding and performed a walkthrough of the process related to the calculation of reported outstanding claims. We have evaluated the design and tested the operating effectiveness of controls in this process.
Given the significance of the total amount of reported outstanding claims, the significant level of judgement exercised on behalf of the management and estimations such as the timing of claims settlement, the development and level of escalation of each claim and the similarity of the claims to other past cases, we consider this to be a risk of management override of controls over the valuation of reported outstanding claims and an area of key audit matter.	We inspected fee quotations obtained from experts assigned to each claim and read their assessment where available to assess the reasonableness of the assumptions used by claims handlers to estimate the development of claims and the effort and timing required to settle each claim selected for testing.
The Company's disclosures relating to the reported outstanding claims and insurance risk are included in note 4, note 5.4, note 6 and note 14.	We have performed a back testing for the adequacy of provisioning on outstanding claims, by comparing payments made post year to the reserve reported as at the year end.
	Due to the absence of historic information available on claims development at the Company's level, as the Company's operations in prior year were limited, we have performed a retrospective analysis of claims settled at the parent entity's level to assess the professional competence and judgment of the claim handlers responsible for the estimation of the outstanding claims reserve balance for claims submitted to the Company and its parent entity. This was performed by analyzing and comparing claims of the parent entity, settled subsequent to the year-end to the reserve recognized at each year-end for the years ended 2019-2021.
	We have assessed the completeness and adequacy of the Company's disclosures regarding reported outstanding claims and insurance risk in the financial statements.

Independent Auditor's Report (continued)

Report on the Audit of the Financial Statements

Valuation of technical reserves	
The total amount of technical reserves as at 20 February 2022 amounts to UK£1,165 thousand. The total value of technical reserves represents 68.6% of the Company's total liabilities.	As part of our audit procedures in relation to the valuation of technical reserves, we have performed the below:
These technical reserves refer to provisions relating to risks incurred but not reported (IBNR). IBNR comprise the following: • Risks incurred but not yet reported (IBNYR) • Incurred But Not Enough Reported Reserve ('IBNER')	We have obtained an understanding of the calculation of technical reserves, through performance of a walkthrough of the process related to the calculation of technical reserves. We have evaluated the design effectiveness of controls in this process.
As at the year ended 20 February 2022 the Company's IBNR reserve comprise solely of IBNER provisions.	With the assistance of our actuarial experts, we have assessed the appropriateness of the methodology and triangulation methods applied in the context of IFRS requirements.
The valuation of IBNER reserve is calculated based primarily on the historical development of claims incurred with the application of judgment on the selection and the exclusion of certain development factors, to ensure that the reserves will be within the prescribed limits despite any adverse future development.	With the assistance of our actuarial experts we have assessed the reasonableness of key assumptions used by the Company's actuarial specialist such as the selection of development factors, similarity of past years claims development and loss ratios to future claims development through examining experience data provided by the Company's actuarial specialist.
The Company's actuarial experts perform the valuation of technical reserves. The methodologies applied by the actuarial experts involve exercising significant level of judgment for the selection of appropriate historical data to reflect their future expectations on claims reserves development. Therefore, and given the significance of the total amount of technical reserves, we consider this to be an area of key audit matter.	With the assistance of our actuarial experts we have tested whether the inputs used in calculating IBNER are appropriate and in accordance with the Company's methodology.
The Company's disclosures relating to insurance reserves and insurance risk are provided in note 4, note 5.4, note 6 and note 14.	We performed back testing to assess the adequacy and reasonableness of the IBNER provision recognised by analyzing and comparing claims settled subsequent to the year-end at a higher amount to the reserve recognised at the year-end.
	We have assessed the completeness and adequacy of the Company's disclosures regarding technical reserves and insurance risk in the financial statements.

Independent Auditor's Report (continued)

Report on the Audit of the Financial Statements

Reporting on other information
The Board of Directors is responsible for the other information. The other information comprises the Management Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, 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.

Responsibilities of the Board of Directors for the Financial Statements
The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines 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 Board of Directors is responsible for assessing the 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 Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Independent Auditor's Report (continued)

Report on the Audit of the Financial Statements

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine the matter that is of most significance in the audit of the financial statements of the current period and are therefore the key audit matter.

Report on Other Legal and Regulatory Requirements
Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement
We were first recommended for appointed as auditors of the Company on 6 December 2021 by the Annual General Meeting of the Company's shareholders. We accepted our appointment as auditors of the Company on 17 March 2022. Our appointment is renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 1 year.

Consistency of the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed in this report is consistent with the final report to the Audit Committee of the Company, which we issued on 20 May 2022, in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Company and which have not been disclosed in the financial statements or the management report.

Independent Auditor's Report (continued)

Report on the Audit of the Financial Statements

Other Legal Requirements
Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter
This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Comparative figures
The financial statements of the Company for the year ended 20 February 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 May 2021.

The engagement partner on the audit resulting in this independent auditor's report is Stavros Pantzaris.

Stavros Pantzaris
Certified Public Accountant and Registered Auditor

for and on behalf of
Ernst & Young Cyprus Limited
Certified Public Accountants & Registered Auditors
Nicosia
27 May 2022

Accounts

Statement of Profit or Loss and Other Comprehensive Income Year ended 20 February 2022

	Notes	2022 UK£	2021 UK£
Gross premium written	7	2,579,659	3,603
Brokerage fees	7	(124,804)	(124)
Outward reinsurance premiums	7	(2,209,369)	(3,019)
Reinsurance ceding commission	18.2	390,043	-
Net premiums written and earned		635,529	460
Other income		1,624	-
Investment gains/losses	8	13,694	-
Net claims paid	14	(24,661)	-
Gross amount	14	(246,606)	-
Reinsurer's share on claims paid	14	221,945	-
Net change in provision for claims	14	(142,573)	(203)
Gross amount	14	(1,425,739)	(2,026)
Reinsurer's share on claims incurred	14	1,283,166	1,823
Claims incurred net of reinsurance	14	167,234	(203)
Exchange (losses)/gains		(32,569)	102
Expected credit losses on insurance receivables	12	(13,558)	-
Net operating expenses	9	(414,026)	(8,747)
Operating profit/(loss)		**23,460**	**(8,388)**
Profit/(loss) before tax		**23,460**	**(8,388)**
Tax	10	(4,300)	-
Net profit/(loss) for the year		**19,160**	**(8,388)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**19,160**	**(8,388)**

The notes on pages 18 to 41 form an integral part of these financial statements.

Accounts

Statement of Financial Position
20 February 2022

	Notes	2022 UK£	2020 UK£
ASSETS			
Current assets			
Financial assets at fair value through profit or loss	11	**3,187,118**	-
Reinsurer's share of technical provisions	14	**1,284,989**	1,823
Insurance receivables	12	**40,244**	-
Trade and other receivables	13	**216,375**	89,629
Cash at bank	15	**139,947**	3,124,198
Total assets		**4,868,673**	3,215,650
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**10,000**	10,000
Share premium	16	**3,150,000**	3,150,000
Retained earnings/Accumulated losses		**8,200**	(10,960)
Total equity		**3,168,200**	3,149,040
Current liabilities			
Technical provisions	14	**1,427,765**	2,026
Trade and other payables	17	**268,408**	64,584
Corporation tax payable	10	**4,300**	-
Total liabilities		**1,700,473**	66,610
Total equity and liabilities		**4,868,673**	3,215,650

On 27 May 2022 the Board of Directors of The United Kingdom Freight Demurrage and Defence Insurance (Europe) Ltd authorised these financial statements for issue.

Michael Pateras	Daniel John Evans
Director	Director

The notes on pages 18 to 41 form an integral part of these financial statements.

Accounts

Statement of Changes in Equity
Year ended 20 February 2022

	Share capital UK£	Share premium UK£	Accumulated losses UK£	Total UK£
Balance at 20 February 2020/ 21 February 2020	10,000	3,150,000	(2,572)	3,157,428
Comprehensive income:				
Net loss for the year	-	-	(8,388)	(8,388)
Total comprehensive income for the year	-	-	(8,388)	(8,388)
Balance at 20 February 2021/ 21 February 2022	**10,000**	**3,150,000**	**(10,960)**	**3,149,040**
Comprehensive income:				
Net profit for the year	**-**	**-**	**19,160**	**19,160**
Total comprehensive income for the year	**-**	**-**	**19,160**	**19,160**
Balance at 20 February 2022	**10,000**	**3,150,000**	**8,200**	**3,168,200**

Share premium is not available for distribution.

Companies which do not distribute 70% of their profits after tax, as defined by Special Contribution for the Defence of the Republic Law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the ultimate shareholders are natural persons and both Cyprus tax resident and Cyprus domiciled. In addition, the Company pays on behalf of the shareholders General Healthcare System (GHS) contribution at a rate of 2,65%, when the entitled shareholders are natural persons tax residents of Cyprus, regardless of their domicile. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The notes on pages 18 to 41 form an integral part of these financial statements.

Accounts

Cash Flow Statement
Year ended 20 February 2022

	Notes	2022 UK£	2021 UK£
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) before tax		**23,460**	(8,388)
Adjustments for:			
Investment income	8	**(13,694)**	-
Changes in working capital:			
Increase in insurance receivables		**(40,244)**	-
Increase in trade and other receivables		**(126,746)**	(89,629)
Increase in reinsurers' share of technical provisions		**(1,283,166)**	(1,823)
Increase in technical provisions		**1,425,739**	2,026
Increase in trade and other payables		**203,823**	62,068
Cash generated from/(used) in operations		**189,172**	(35,746)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions of financial assets at fair value through profit or loss	11	**(5,190,026)**	-
Redemptions of financial assets at fair value through profit or loss	11	**2,016,603**	-
Cash used in investment activities		**(3,173,423)**	-
Net decrease in cash and cash equivalents		**(2,984,251)**	(35,746)
Cash and cash equivalents at beginning of the year		**3,124,198**	3,159,944
Cash at bank and cash equivalents at end of the year	**15**	**139,947**	3,124,198

The notes on pages 18 to 41 form an integral part of these financial statements.

General Information
1. Incorporation and principal activities
The financial statements of The United Kingdom Freight Demurrage and Defence Insurance (Europe) Ltd (the "Company") for the year ended 20 February 2022, were authorised for issue in accordance with a resolution of the Board of Directors on 27 May 2022.

Country of incorporation
The Company was incorporated in Cyprus on 4 July 2019 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its registered office is at 37 Theklas Lysioti Street, Gemini House, Flat 202, 3030 Limassol, Cyprus.

Principal activities
The Company is a 100% subsidiary of The United Kingdom Freight Demurrage and Defence Association Limited, registered in the United Kingdom, with its registered office at 90 Fenchurch Street, London, EC3M 4ST.

The Company's principal activity, which is unchanged from last year, is the provision of insurance to its policyholders against legal costs and expenses relating to the operation of ships entered with the Company as defined in the Rules of the Company. The Company underwrites insurance of policyholders situated in an European Economic Area state.

The Company was licensed under Article 14 of the Insurance and Reinsurance Services and Other Related Issues Laws of 2016-2017 on 19th June 2020.

2. Basis of preparation
Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113 and the Insurance and Reinsurance Services and other Related Issues Law of 2016, as amended from time to time.

Basis of presentation
The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (no more than 12 months) and more than 12 months after the reporting date (more than 12 months) is presented in the respective notes.

Statement of measurement
The financial statements have been prepared under the historical cost convention, except for investments classified at fair value through profit or loss, that have been measured at fair value.

Functional and presentation currency of the financial statements
The financial statements are presented in Sterling (UK£), which is the Company's functional currency, and all amounts are rounded to the nearest pound, except where otherwise indicated.

3. Adoption of new or revised standards and interpretations
Adoption of new and revised International Financial Reporting Standards and Interpretations as adopted by the European Union (EU):
During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 21 February 2021. This adoption did not have a material effect on the accounting policies of the Company.

Standards and Interpretations issued but not yet effective and not early adopted:
The following Standards, Amendments and Interpretations have been issued but are not yet effective for annual periods beginning on 21 February 2022. Those which may be relevant to the Company and expected to have a material impact on the Company's financial statements are set out below. The Company does not plan to adopt these Standards early.

- IFRS 17 Insurance Contracts (applicable for accounting period commencing on or after 1 January 2023):
  The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The Management has already initiated the implementation process for the retrospective adoption of IFRS 17 'Insurance Contracts' which is effective as from 1st of January 2023.

3. Adoption of new or revised standards and interpretations (continued)

- IFRS 17: Insurance Contracts (Amendments) (effective for annual periods beginning on or after 1 January 2023): The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.

  IFRS 17 Implementation:
  The Company is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of this amendment is not reasonably estimated, although the Company anticipates that the simplified approach will be applicable to the insurance contracts that the Company writes, thus introducing limited change to the financial results of the Company.

Other Standards, Amendments to Standards and Interpretations:
Adopted by the EU:

- IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment) - effective for annual periods beginning on or after 1 April 2021 (not applicable for the Company).
- IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments) - effective for annual periods beginning on or after 1 January 2022 (not applicable for the Company).

Not adopted by the EU:

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments) - effective for annual periods beginning on or after 1 January 2023.
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments) - effective for annual periods beginning on or after 1 January 2023.
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments) - effective for annual periods beginning on or after 1 January 2023.
- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments) - effective for annual periods beginning on or after 1 January 2023.

4. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Classification of insurance contracts (policies)

Contracts in which the Company accepts significant insurance risk from a third party (the policy owner) by agreeing to compensate the policy owner if a specified uncertain future event (the insured event) adversely affects the owner of the contract, are classified as insurance contracts.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Insurance risk differs from financial risk. The financial risk is the risk of a plausible future change in one or more, fixed interest rates, title price, commodity price, exchange rate, index credit, credit rating or other variable, since in the case of a non- financial variable, the variable is not specific to one part of the contract. Insurance contracts may also transfer some financial risk.

Revenue
Recognition and measurement

a. Premiums written
   Premiums written relate to business incepted during the year. There are no unearned premiums as all policies expire on or before 12pm noon GMT of the date of the statement of financial position. Premiums written are presented net of returned premiums and discounts allowed.

b. Ceded commission
   Commission income on reinsurance ceded is accrued over the period of the related insurance policy in accordance with the relevant reinsurance contract.

c. Investment income
   Fair value gains on financial assets at FVTPL
   Financial assets at fair value through profit and loss ("FVTPL") are measured at fair value at each reporting date with any changes recognised in profit or loss.

4. Significant accounting policies (continued)

Dividend and interest income from debt and equity instruments

Dividend from investments in equity instruments is recognised when the right to receive payment is established. Withheld taxes are transferred to profit or loss. Interest from investments in debt instruments is recognised using the effective interest rate method.

Reinsurance assets and liabilities

The Company cedes reinsurance in the normal course of business for the purpose of limiting potential losses arising from certain exposures.

Assets, liabilities, income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses of the related insurance contracts where the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Outward reinsurance premiums and reinsurance commission

Outward reinsurance premiums are the total payable in respect of quota share reinsurances for the period to which the relevant contracts relate. Reinsurance premium is recognised in the statement of profit or loss as 'Outward reinsurance premiums'.

Quota share reinsurance premiums are subject to an agreed discount/ceded commission, the rate of which for each policy year is agreed with The United Kingdom Freight Demurrage and Defence Association Limited. The agreed discount is recognised in the statement of profit or loss as 'Ceded commissions'.

Reinsurer's share of technical provisions

Reinsurer's share of technical provisions include balances due from the reinsurance company for ceded technical provisions. Amounts ceded to and recoverable from the reinsurer are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. The movement in reinsurer's share of technical provisions is recognised in the statement of profit or loss as 'Reinsurers' share on claims incurred'. The Company's gross and reinsurance Technical Provisions include a provision for claims Incurred But Not Reported "(IBNR").

Reinsurance receivables and payables

Reinsurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, reinsurance receivables are measured at amortised cost, using the effective interest rate method.

Reinsurance liabilities relate primarily to premiums payable for reinsurance contracts and are recognised as an expense when due. Reinsurance liabilities are calculated based on the amounts related with reinsurance contracts and based on the terms of the reinsurance contract.

Reinsurance receivables and payables are netted off and presented in "Trade and other receivables" or "Trade and other payables" in the statement of financial position.

Claims

These are the legal costs and expenses of the Members covered by the Company. 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 Company 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 Company 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 statement of profit or loss.

4. Significant accounting policies (continued)

Whilst the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Any differences between the provisions and subsequent settlements are dealt within the technical accounts of later years.

Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Income Taxes

Current income tax

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment.

Deferred taxes

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Insurance premium tax

Insurance premium tax is the indirect tax on insurance premiums payable by the Members on premiums written is collected by the Company and paid on behalf of the Member to the relevant jurisdiction. Insurance premium tax does not form part of the premium written. Insurance premium tax payable is presented within other payables on the statement of financial position.

Financial instruments

Recognition of financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Company commits to deliver a financial instrument.

All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets - Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

4. Significant accounting policies (continued)

The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

On initial recognition, the Company may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Financial assets – Initial recognition and subsequent measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Company classifies its financial assets:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are initially measured at fair value and subsequently measured using the effective interest (EIR) method and are subject to impairment. Interest income from these financial assets is presented in profit or loss separately.

Financial assets – Measurement

Any gain or loss arising on derecognition is also presented separately in profit or loss. Impairment losses are presented as separate line item in the statement of comprehensive income. Financial assets measured at amortised cost (AC) comprise of insurance receivables, cash at bank and other receivables.

FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within "other gains/(losses)" in the period in which it arises. Interest income on from these financial assets is presented in profit or loss in a separate line than interest income from FVOCI and Amortised cost financial assets. Financial assets measured at FVTPL comprise of investments held in UCITS and Government bonds.

Changes in the fair value of financial assets at FVTPL are recognised in "Investment income"' in the statement of comprehensive income as applicable.

Financial assets - credit loss allowance for ECL

The Company assesses on a forward-looking basis the ECL for debt instruments measured at amortised cost ('AC'). The Company measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within "Expected credit losses on insurance receivables".

4. Significant accounting policies (continued)

Expected losses are recognised and measured according to one of two approaches: general approach or simplified approach.

For trade and other receivables without a significant financing component the Company applies the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognised from initial recognition of the financial assets.

For all other financial assets that are subject to impairment under IFRS 9, the Company applies general approach three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit impaired on initial recognition is classified in Stage 1.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Company determines that a financial asset is credit impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

Additionally, the Company has decided to use the low credit risk assessment exemption for Cash at bank financial assets.

Credit risk increase:

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Company considers a financial asset to be in default when:

- the counterparty is unlikely to pay its credit obligations to the Company in full, or
- the financial asset is more than 90 days past due

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets measured at amortised cost at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor, counterparty or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of an amount due to the Company on terms that the Company would not otherwise consider;
- it is becoming probable that the debtor, counterparty or issuer will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the debtor's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In assessing whether an investment in bonds is credit-impaired, the Company considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of credit-worthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms, including an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Financial liabilities – Classification and Measurement

Financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest rate method.

4. Significant accounting policies (continued)

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Modifications to, and exchanges of, financial liabilities are treated as extinguishments and derecognised, when the revised terms are substantially different to the original term. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash at bank balances with maturity of 3 months or less which are repayable on demand and which form an integral part of the Company's cash management.

Dividends

Dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in case of final dividends, these are recognised in the period in which these are approved by the Company's shareholder. Dividends for the year that are declared after the reporting date are dealt with as a non-adjusting event after the reporting date.

Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account. Share premium account can only be resorted to for limited purposes which do not include distribution of dividends and is subject to the provisions of the Cyprus Companies Law on reduction of share capital..

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

5. Financial and insurance risk and capital management

The Company monitors and manages the risks relating to its operations through its risk management programme. This is evidenced in the Own Risk Solvency Assessment ("ORSA") report which is submitted to the Cyprus Superintendent of Insurance ("ICCS") and documents the Company's risk and capital management policies employed to identify, assess, manage and report the risks. The ORSA report considers the business strategy of the Company and its alignment with the risk appetite and risk profile.

5. Financial and insurance risk and capital management (continued)

The Company is exposed to insurance risk as part of its ordinary course of business. In addition, the Company has exposure to credit risk, liquidity risk, and market risk in relation to its financial instruments. This note presents information about Company's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks.

5.1 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 Company's objective is to reduce credit risk through the risk management techniques discussed below.

The Company's exposure to reinsurance counterparties is mitigated through the cession of 90% of insurance liabilities with the Company's sole shareholder. In turn and in line with the Group's policy, exposure to reinsurance counterparties is mitigated by the Parent Company placing its excess of loss reinsurances with counterparties rated A or better thereby reducing the credit risk on the Company's reinsurance recoverables with the Parent Company.

In respect of banking and financial counterparties, the Company regularly assesses the creditworthiness of all its counterparties. This assessment includes a review of credit ratings provided by rating agencies, and other publicly available financial information.

The following tables provide information regarding aggregate credit risk exposure and concentration of the Company and the credit quality analysis of the financial assets held as at the year end, with reference to their external credit ratings as published by independent ratings agencies:

20 February 2022	AAA - A UK£	Not rated / not readily available UK£	Total UK£	Concentration %
Financial assets at fair value through profit or loss	3,187,118	-	3,187,118	65%
Reinsurer's share of technical provisions	-	1,284,989	1,284,989	26%
Insurance receivables		40,244	40,244	1%
Receivables from parent entity	-	187,091	187,091	4%
Trade and other receivables	-	24,352	24,352	1%
Cash at bank	139,947	-	139,947	3%
Total assets subject to credit risk	**3,327,065**	**1,536,676**	**4,863,741**	100%

20 February 2021	AA - A UK£	Not rated / not readily available UK£	Total UK£	Concentration %
Reinsurer's share of technical provisions	-	1,823	1,823	0%
Receivables from parent entity	-	68,172	68,172	2%
Cash at bank	3,124,198	-	3,124,198	98%
Total assets subject to credit risk	**3124,198**	**69,995**	**3,194,193**	100%

Any unrated financial assets that are past due, but not impaired are further disclosed in Note 12 and Note 13 and are not considered to be material.

5. Financial and insurance risk and capital management (continued)

5.1 Credit risk (continued)

Assessment of expected credit losses (ECLs)

Inputs, assumptions and techniques used for estimating impairment credit losses are described in accounting policies in Note 3.

Expected credit losses on financial assets recognised in profit or loss were as follows.

	Credit impaired ECL	
	2022 UK£	**2021 UK£**
Premiums receivable	13,558	-
	13,558	-

Assessment of expected credit losses (ECLs) (continued)

Insurance receivables are assessed for impairment, using the expected credit losses and estimated loss rate. To measure the expected credit losses, insurance receivables are individually assessed based on their unique characteristics and the days past due. The expected loss rate is based on the payment profile of individual receivables which are past due and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of receivables to settle their balance.

5.2 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets.

The Company maintains a highly liquid portfolio of cash, government and corporate bonds with a maturity equivalent to the expected settlement period of claim liabilities. Most of the remaining assets in the surplus portfolio could be converted into cash in less than one month, as per the internal procedures and approved risk tolerances. The Chief Financial Officer and Chief Risk Officer monitor the liquidity position of the company against risk tolerances on a continuous basis. Any breaches of liquidity limits are assessed and appropriate action is taken.

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company could be required to pay. The table includes both interest and principal cash flows.

Notes to the Financial Statements (continued)

5. Financial and insurance risk and capital management (continued)

5.2 Liquidity risk (continued)

20 February 2022	Carrying amounts UK£	Cash flows UK£	Up to 12 months UK£
Financial assets			
Financial assets at fair value through profit or loss	3,187,118	3,187,118	3,187,118
Reinsurers' share of technical provisions	1,284,989	1,284,989	1,284,989
Insurance receivables	40,244	40,244	40,244
Trade and other receivables	211,443	211,443	211,443
Cash at bank	139,947	139,947	139,947
Total financial assets	**4,863,741**	**4,863,741**	**4,863,741**
Financial liabilities			
Technical provisions	1,427,765	1,427,765	1,427,765
Trade and other payables	189,322	189,322	189,322
Total financial liabilities	**1,617,087**	**1,617,087**	**1,617,087**

20 February 2021	Carrying amounts UK£	Cash flows UK£	Up to 12 months UK£
Financial assets			
Reinsurers' share of technical provisions	1,823	1,823	1,823
Trade and other receivables	68,172	68,172	68,172
Cash at bank	3,124,198	3,124,198	3,124,198
Total financial assets	**3,194,193**	**3,194,193**	**3,194,193**
Financial liabilities			
Technical provisions	2,026	2,026	2,026
Trade and other payables	457	457	457
Total financial liabilities	**2,483**	**2,483**	**2,483**

5.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and security prices will affect the Company's income or the value of its holdings in financial instruments. Market risk comprises mainly three types of risk: interest rate risk, currency risk and market price risk.

5.3.1. Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and the Euro. The Company's Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

As at 20 February 2022	Sterling UK£	US Dollar UK£	Euro UK£	Total UK£
Financial assets at fair value through profit or loss	2,899,994	287,124	-	3,187,118
Reinsurer's share of technical provisions	875,204	212,596	197,189	1,284,989
Insurance receivables	6,710	33,535	-	40,244
Trade and other receivables	187,229	24,214	-	211,443
Cash and cash equivalents	1,222	137,185	1,540	139,947
Technical provisions	(972,785)	(235,844)	(219,136)	(1,427,765)
Trade and other payables	(37,684)	(56,056)	(95,582)	(189,322)
	2,959,890	402,754	(115,989)	3,246,654

As at 20 February 2021	Sterling UK£	US Dollar UK£	Euro UK£	Total UK£
Reinsurer's share of technical provisions	1,823	-	-	1,823
Trade and other receivables	68,172	-	-	68,172
Cash and cash equivalents	3,118,803	4,785	610	3,124,198
Technical provisions	(2,026)	-	-	(2,026)
Trade and other payables	-	(457)	-	(457)
	3,186,772	4,328	610	3,191,710

Sensitivity analysis

A 5% strengthening / weakening of Sterling against the following currencies at 20 February each year would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2022		2021	
	Strengthening	Weakening	Strengthening	Weakening
USD	(19,179)	21,198	216	(216)
EUR	5,523	(6,105)	31	(31)

5.3 Market risk (continued)

5.3.2. Market price risk

Market price risk is the risk that the value of financial instruments will fluctuate due to changes in market prices. The Company is exposed to market price risk due to its investments in financial instruments and are classified in the statement of financial position as financial assets at fair value through profit or loss.

Financial assets that are valued at fair value through the results of the Company are subject to market price risk due to uncertainty about future investment prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk. Market price risk is mitigated through the investment policy adopted by the Company which safeguards against exposure to risky asset classes and ensures minimum diversification limits of the investment portfolios. As a result the Company does not have any significant concentration of market price risk, based on the allocation of its investments held.

The Company invests in quoted debt and equity instruments and performs periodic reviews of the market values by reference to quoted prices, along with the credit rating and the financial condition of the key counterparties, at least quarterly, and is ready to take action in the event of a deterioration in the credit quality of the underlying instrument or/and issuer.

The Company holds investments in UCITS and UK Government bonds with maturity within 3 months.

A 0.5% strengthening / weakening of the market price of financial instruments held at 20 February would have increased / (decreased) profit or loss by the amounts shown below.

	2022 UK£	2021 UK£
0.5% increase in fair value	15,936	-
0.5% decrease in fair value	(15,936)	-

5.3.3. Cash flow and fair value interest rate risk

The Company's interest rate risk arises from interest-bearing assets. Interest-bearing assets at fixed rates expose the Company to fair value interest rate risk. As at 31 December 2021, all of the Company's interest -bearing assets are bearing fixed interest rates and as such the Company is not exposed to any cash flow interest rate risk. The Company is instead exposed to fair value interest rate risk, and its exposure was determined to be insignificant, taking into consideration the short-term maturity of the interest-bearing financial assets.

5.4 Insurance risk

The Company as part of its ordinary course of business is exposed to insurance risk which can be significantly affected by the following:

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

1. Underwriting risk

This is the risk that insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process as a result of unpredictable events or from accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies.

Underwriting risk is mitigated through cession of 90% of the risk written by the Company to its parent under a quota share agreement.

5. Financial and insurance risk and capital management (continued)

5.4 Insurance risk (continued)

2. Reserving risk

Reserving risk is defined as the risk arising from the inherent uncertainty about the occurrence, amount and timing of claims, as well as the risk from unexpected increases in the associated expense and other costs of settling the respective claims, compared to the claims' provisions recognised.

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

The 2023 policy year contracts will not be active until 20 February 2022 at 12pm noon GMT and, therefore, are not included within the financial statements for this year in line with UK insurance industry practice. Therefore, there is limited risk of fluctuation in loss ratio for the year.

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

Reserving risk is mitigated through cession of 90% of the risks written by the Company to its parent under a quota share agreement.

A sensitivity testing has been carried out as 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.

	2022 UK£	2021 UK£
Increase in loss ratio by 5 percentage		
Gross	(122,743)	(174)
Net	(12,274)	(17)

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

5.5 Capital management

The Company's capital consists of share capital and share premium amounting to UK£10,000 and UK£3,150,000 respectively (2021: UK£10,000 and UK£3,150,000 respectively).

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The adequacy of the Company's capital is monitored by the Superintendent of Insurance (Ministry of Finance) in order to ensure a minimum margin for solvency. The required minimum capital is 115% and is determined in order to ensure the minimum solvency margin.

The Company assesses on a quarterly basis the potential deficit between the current level and the required level of capital to maintain a strong solvency margin. The Company was in full compliance with the legal capital requirements set by the Superintendent of the Insurance, during the reported accounting period, i.e. the total eligible fund of the Company were able to cover the minimum capital requirement and the solvency capital requirement at all quarter ends.

5. Financial and insurance risk and capital management (continued)

5.6 Fair value estimation

Fair value is the amount at which a financial asset could be exchanged or a liability settled in a transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Company, using available market information, where it exists, and appropriate valuation methodologies and assistance of experts. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Company has used all available market information in estimating the fair value of financial instruments.

The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received, discounted at current interest rates for instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other receivables approximate their fair values. Carrying amounts of trade and other payables which are due within twelve months approximate their fair values.

The disclosure of the fair value of financial instruments carried at fair value is determined using the following valuation methods:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Company's specific estimates.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company's financial instruments carried at fair value relate to investment securities and are disclosed in Note 11. They are valued using Level 1 valuation techniques from the table above. There were no changes in the valuation techniques during the year.

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

As at 20 February 2022	**Level 1 UK£**	**Level 2 UK£**	**Level 3 UK£**	**Total UK£**
Short term investment funds	1,737,299	-	-	1,737,299
Fixed income securities	1,449,819	-	-	1,449,819
Total	3,187,118	-	-	3,187,118

There were no transfers between fair value hierarchy levels during the year ended 20 February 2022.

6. Critical accounting estimates, judgments and assumptions

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and requires Management to exercise its judgment and to make assumptions that influence the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

6. Critical accounting estimates, judgments and assumptions (continued)

Critical judgements in applying the Company's accounting policies

- Insurance liabilities
  Estimates are made for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The Company reviews every reported claim, and the estimated insurance liability is based on the facts of each claim and on other factors that are believed to be reasonable under the circumstance. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Insurance liabilities are based on the best estimates of the Directors of the likely cost of individual cases, and the extent of the Company's current commitment to the cost of these cases.

  The final 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 Company 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. The estimates are reviewed regularly. For further details please refer to Note 14.

- Impairment of financial assets
  The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 5, Credit risk section.

- Income taxes
  Judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- Going concern
  The financial statements have been prepared on a going concern basis. The Board of Directors have assessed the Company's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The Board of Directors has evaluated the financial developments, the prospects as well as the ability of the Company to have the required solvency and liquidity to continue as a going concern. The Board of Directors of the Company taking into account the current business and financial environment considers that the Company has the capacity to continue its operations, as a going concern and maintain compliance with Solvency Capital and Minimum Capital requirements

7. Gross premium written and outward reinsurance premiums

	2022 UK£	2021 UK£
Gross premiums written	2,579,659	3,603
Brokerage fees	(124,804)	124
Outward reinsurance premiums	(2,209,369)	(3,019)
Reinsurance ceding commission	390,043	-
Net Premiums written and earned	635,529	460

8. Investment income

	2022 UK£	2021 UK£
Dividend income	175	-
Interest income from government bonds	141	-
Net gains on investments at fair value through profit or loss	13,378	-
	13,694	-

9. Net operating expenses

	2022 UK£	2021 UK£
Auditors' remuneration for the statutory audit of annual accounts	59,891	21,682
Auditors' remuneration for other services	8,000	5,420
Management fees (1)	291,502	25,961
Professional fees	38,802	19,719
Directors' remuneration	11,877	11,786
Other expenses	3,954	863
Total expenses	**414,026**	**85,431**
Ceding commission	-	(76,684)
Total	**414,026**	**8,747**

(1) Management fees represent fees charged by the appointed external Managers of the Company and covers the costs of providing offices, staff and administration services. The compensation of the Management entity is fixed by the Directors in accordance with the articles of the Company. No loan has been made to the Management entity and none is contemplated. The Company itself had no employees throughout the year.

10. Tax

	2022 UK£	2021 UK£
Tax charge for the year	**4,300**	-

The tax on the Company's result before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

Profit/(Loss) before tax	**2022 UK£**	**2021 UK£**
	23,460	**(8,388)**
Tax calculated at the applicable tax rates	2,932	(1,049)
Tax effect on expenses not allowable for tax purposes	4,108	-
Tax effect of allowances and income not subject to tax	(1,694)	(12)
Tax effect of tax losses brought forward	(1,372)	-
Tax effect of tax loss for the year/period	-	1,061
10% additional tax for taxes not paid during the year	326	-
Tax charge	**4,300**	**-**

The income tax rate is 12.5%.

Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 17%.

11. Financial assets at fair value through profit or loss

	2022 UK£	2021 UK£
Fixed income securities	1,449,819	-
Short term investment funds	1,737,299	-
	3,187,1184	**-**

11. Financial assets at fair value through profit or loss (continued)

The movement in the financial assets at fair value through profit or loss is presented below:

	2022 UK£	2021 UK£
Balance as at 21 February	-	
Additions	5,190,026	-
Redemptions	(2,016,603)	-
Dividends	175	-
Interest receivable	371	-
Net gains on investments at fair value through profit or loss	13,149	-
Balance as at 20 February	**3,187,118**	**-**

12. Insurance receivables

	2022 UK£	2021 UK£
Premiums receivable	**40,244**	-

As at 20 February 2022, premiums receivable amounting to UK£26,353 were past due and a provision for impairment of UK£13,558 (2021: UK£Nil) was recognised. The provision for impairment relates to a single Member and is based on the likelihood of recovery of funds from this particular Member.

The ageing analysis of not impaired premiums receivables are as follows:

	2022 UK£	2021 UK£
Not yet due	27,450	-
Up to 90 days	-	-
From 90 to 120 days	6,710	-
From 120 to 180 days	-	-
Over 180 days	1,565	-
	35,725	**-**

The exposure of the Company to credit risk and impairment losses in relation to receivables is reported in Note 4 of the financial statements. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Company does not hold any collateral as security for any receivables.

13. Trade and other receivables

		2022 UK£	2021 UK£
Receivables from parent company	18.2	187,091	68,172
Other receivables		24,352	-
Prepayments		4,932	21,457
		216,375	**89,629**

Trade and other receivables do not contain impaired assets and the fair value of receivables approximates their carrying value.

Other classes within trade and other receivables do not contain impaired assets.

The fair value of receivables approximates their carrying value.

14. Technical provisions

	2022 UK£	2021 UK£
Gross technical provisions	(1,427,765)	(2,026)
Reinsurers' share of gross technical provisions	1,284,989	1,823
Total net technical provisions	**(142,776)**	**(203)**

Net technical provisions include a provision for claims incurred but not reported (IBNR) as presented in the table below:

	2022 UK£	2021 UK£
Claims outstanding estimates	262,495	-
Provision for claims incurred but not reported (IBNR)	1,165,270	2,026
	1,427,765	**2,026**
Reinsurers' share of gross technical provisions	**(1,284,989)**	**(1,823)**
Net	**142,776**	**203**

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 Company's current commitment to the cost of these cases. These estimates are as accurate as possible given the details of the cases and taking into account all the current information. The estimates are reviewed regularly.

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

The movement on net incurred claims for prior policy years was UK£15K (2021: UK£ nil).

14. Technical provisions (continued)

Development claim tables

The development of technical provisions provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Company's estimate of total claims outstanding for each policy year has changed. 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:

As at 20 February 2022

Reporting period	2022/2021	2021/2022
- At the end of the reporting period	-	1,674,370
- One year later	-	-
Current estimate of cumulative claims	-	1,674,370
Cumulative payments to date		246,605
Gross liability recognised on statement of financial position		1,427,765
Total gross liability relating to the last two policy years		1,427,765
Other claims liabilities		
Total gross technical provisions included on statement of financial position		1,427,765

As at 20 February 2021

Reporting period	2019/2020	2020/2021
- At the end of the reporting period	-	2,026
- One year later	-	-
Current estimate of cumulative claims	-	2,026
Cumulative payments to date		-
Gross liability recognised on statement of financial position		2,026
Total gross liability relating to the last two policy years		2,026
Total gross technical provisions included on statement of financial position		2,026

Notes to the Financial Statements (continued)

14. Technical provisions (continued)

Movement in technical claims provisions

	2022			2021		
	Gross UK	Reinsurance UK£	Net UK£	Gross UK£	Reinsurance UK£	Net UK£
Total at the beginning of the year	2,026	1,823	203	-	-	-
Claims paid	(246,606)	(221,945)	(24,661)	-	-	-
Claims incurred during the year	1,672,345	1,505,111	167,234	2,026	1,823	203
Total at the end of the year	**1,427,765**	**1,284,989**	**142,776**	**2,026**	**1,823**	**203**

15. Cash at bank

	2022 UK£	2021 UK£
Cash at bank	**139,947**	3,124,198

The exposure of the Company to credit risk and impairment losses in relation to cash at bank is reported in Note 5 of the financial statements.

16. Share capital

	2022 Number of shares	2022 UK£	2021 Number of shares	2021 UK£
Authorised Ordinary shares of GBP£ 1.00	**20,000**	**20,000**	20,000	20,000
Issued Balance at 21 February	**20,000**	**20,000**	20,000	20,000
Balance at 20 February	**20,000**	**20,000**	20,000	20,000
Not called/unpaid issued capital	**(10,000)**	**(10,000)**	(10,000)	(10,000)
Balance at 20 February	**10,000**	**10,000**	10,000	10,000

Upon incorporation on 4 July 2019 the Company issued to the subscribers of its Memorandum of Association 10,000 ordinary shares of UK£1.00 each at par which has not been called up for payment and remain unpaid as at the period end 20 February 2022.

16. Share capital (continued)

On 2 September 2019, the authorised share capital of the Company was increased by 10,000 ordinary shares of nominal value UK£1.00 each. On 2 September 2019, the Company increased its share capital by 10,000 ordinary shares at a premium. An amount of UK£ 316 has been paid per share out of which the amount of UK£ 1.00 represents the nominal value and the amount of GBP£ 315.00 its share premium.

Nature and purpose of reserves:
(i) Retained earnings:
Retained earnings includes the total earnings for the period less dividends paid to shareholders. Retained earnings are distributable to the owners of the Company.

(ii) Share premium:
Share premium consists of the value of shares issued above par value. Share premium is not distributable.

17. Trade and other payables

	2022 UK£	2021 UK£
Claims creditors	30,472	457
Other creditors	63,498	-
Management fee payable	95,351	-
Accruals	79,086	64,128
	268,407	**64,585**

Claims creditors represent claims payable agreed but remained outstanding at year end and do not form part of the technical provisions.

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

18. Related Parties

The Company is controlled by The United Kingdom Freight Demurrage and Defence Association Limited (the “Association”), incorporated in United Kingdom, which owns 100% of the Company’s shares. The Association is a mutual entity with 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.

The four non-executive directors of the Company 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 Company or the Association.

18.1 Directors’ remuneration

The remuneration of Directors was as follows:

	2022 UK£	2021 UK£
Directors’ fees	11,877	11,786
	11,877	**11,786**

The Company’s key management personnel services are provided by a separate management entity, Thomas Miller B.V. Cyprus Branch, and their remuneration forms part of the management fees incurred during the year.

18. Related Parties (continued)

18.2 Receivables from related parties

Name	Nature of transactions	2022 UK£	2021 UK£
The United Kingdom Freight Demurrage and Defence Association Limited	Finance/Reinsurance	187,091	68,172

The movement during the year is presented in the table below:

	2022 UK£	2021 UK£
Balance brought forward	68,172	-
Outward reinsurance premium	(2,209,369)	(3,019)
Claims paid and inwards reinsurance	221,945	1,823
Ceding commission (2)	390,043	76,684
Other transactions (1)	25,619	(7,316)
Settlement of balance	1,690,681	-
Balance carried forward	**187,091**	**68,172**

(1) The Association novated one of its policies to the Company as a result of Brexit transitional arrangements. This resulted in a profit on novation of UK£1,624 for the Company which is presented in "Other income" in the statement of profit or loss and is included in the "other transactions" in the table above.

(2) Ceding commission was classified in 2021 within "Net operating expenses" as the Company had a negligible amount of premiums written.

18.3 Reinsurer's share of technical provisions

Name	Nature of transactions	2022 UK£	2021 UK£
The United Kingdom Freight Demurrage and Defence Association Limited	Reinsurance	1,284,989	1,823

During the year ended 20 February 2022 the Company recognised the following transactions in the statement of profit and loss in relation to Reinsurer's share of technical provisions:

	2022 UK£	2021 UK£
Reinsurer's share on claims paid	221,945	-
Reinsurer's share on claims incurred	1,283,166	1,823
Balancce carried forward	1,505,111	1,823

19. Contingent liabilities
The Company had no contingent liabilities as at 20 February 2022.

20. Commitments
The Company had no capital or other commitments as at 20 February 2022.

21. Events after the reporting period
On 24 February 2022, Russian troops started invading Ukraine. In response, multiple jurisdictions have imposed economic sanctions on Russia and Belarus. This war is increasingly affecting economic and global markets and poses ongoing challenges to the global landscape, such as rising inflation. The degree of impact depends on the nature and duration of uncertain events, such as additional sanctions and reactions to these events by financial markets. The Company does not have a physical presence in either Russia or Ukraine, and as such is not directly impacted by these events. Indirectly, the sanctions regime imposed on Russia and Belarus could impact the Company's ability to recover premiums from Members, and pay claims to Members. The Company could be also impacted by adverse movements in foreign exchange rates and on the investment portfolio holds. It should however be noted that the Company's Russian Membership represents an immaterial proportion of its overall book, and as such the crisis in Ukraine is not expected to impact the Company's year-end and cash flow position, nor the Company's assumption around going concern. The Company continues to keep the position under review in order to ensure compliance with sanction measures whilst acting for the benefit of its overall Membership.

The Company's Management believes that it is taking all the necessary measures to maintain the viability of the Company and the smooth conduct of its operations in the current business and economic environment.

There were no events after the reporting period which might have a bearing on the financial statements.

Independent auditor's report on pages 8 to 13.

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