

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

# Financial Statements

The United Kingdom Defence Insurance Association (Isle of Man) Limited,  
Directors' Report and Financial Statements for the year ended 20 February 2017



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## DIRECTORS, OFFICERS AND MANAGERS

### Directors

Dr. D. L. Moore  
E. Shallcross  
K.L. Marshall  
I.R. Jarrett (resigned 11 August 2016)  
Y. Botonakis  
G Panayides  
R. Lingard (appointed 11 August 2016)

### Manager

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

### Secretary

Thomas Miller (Isle of Man) Limited  
Level 2  
Samuel Harris House  
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Douglas  
Isle of Man  
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### Investment Manager

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

### Registered Office

Level 2  
Samuel Harris House  
5-11 St Georges Street  
Douglas  
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IM1 1AJ

The Directors have pleasure in presenting their Report and the Financial Statements of the Association for the year ended 20 February 2017.

### Principal activity

The Association reinsures 90 per cent of the business of The United Kingdom Freight Demurrage and Defence Association Limited ("UKFD&D").

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

### Directors

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

### Review of the year

Operations for the year resulted in a profit of £87,000 (2016: loss of £117,000).

### Directors' responsibilities statement

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

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

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

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

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

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

Moore Stephens Chartered Accountants being eligible, has indicated its willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

By Order of the Board

For and on behalf of  
Thomas Miller (Isle of Man) Limited

Company Secretary  
4 May 2017

## Independent Auditors' report to the members of The United Kingdom Defence Insurance Association (Isle of Man) Limited

We have audited the financial statements of The United Kingdom Defence Insurance Association (Isle of Man) Limited for the year ended 20 February 2017 which are set out on pages 7 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### Respective responsibilities of Directors and Auditor

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

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we became aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the association's affairs as at 20 February 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Isle of Man Companies Acts 1931 to 2004, as modified by the Insurance Act 2008.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Isle of Man Companies Acts 1931 to 2004 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Moore Stephens**

Chartered Accountants

Douglas

Isle of Man

4 May 2017



# INCOME AND EXPENDITURE ACCOUNT

For the year ended 20 February 2017

	Notes		2017 £'000		2016 £'000
<b>Premiums</b>					
Premiums receivable		14,542		15,498	
Agreed discount		(6,873)		(5,957)	
			7,669		9,541
<b>Claims</b>					
Claims paid less recoveries		(8,387)		(9,280)	
Change in provision for outstanding claims		(3,830)		(277)	
			(12,217)		(9,557)
<b>Investment Return</b>					
Investment income	6	2,629		1,809	
Gains / (Losses) on investments					
Realised		295		581	
Unrealised		2,080		(2,140)	
			5,004		250
<b>Expenses</b>					
Management fee	8	(288)		(272)	
General and administrative expenses	7	(81)		(79)	
			(369)		(351)
<b>Profit/(Loss) for the year</b>			<b>87</b>		<b>(117)</b>

The above results relate to continuing activities of the Company.  
The notes on pages 11 to 23 form an integral part of these Financial Statements.

# BALANCE SHEET

At 20 February 2017

	Notes	2017 £'000	2016 £'000
<b>Assets</b>			
Investments	9	37,053	50,013
Segregated investment account	9/11B	16,335	-
Derivative financial investments	10	5	70
Due from investment brokers		-	1,633
Cash and cash equivalents		149	511
Related party balances	13	1,021	-
Accrued interest		83	71
Prepaid expenses		5	6
<b>Total assets</b>		<b>54,651</b>	<b>52,304</b>
<b>Liabilities</b>			
Technical provisions	12	(29,450)	(25,620)
Derivative financial instruments	10	(11)	(14)
Due to investment brokers		-	(258)
Related party balances	13	-	(1,310)
Accrued expenses		(23)	(22)
<b>Total liabilities</b>		<b>(29,484)</b>	<b>(27,224)</b>
<b>Net Assets</b>		<b>25,167</b>	<b>25,080</b>
<b>Reserves</b>			
Guarantee fund		100	100
Income and Expenditure Account		25,067	24,980
<b>Total reserves</b>		<b>25,167</b>	<b>25,080</b>

These financial statements were approved by the directors on 4 May 2017.

## Directors

## Managers

and on behalf of  
Thomas Miller (Isle of Man) Limited

The notes on pages 11 to 23 form an integral part of these Financial Statements.

# STATEMENT OF CHANGES IN RESERVES

For the year ended 20 February 2017

	Guarantee Fund £'000	Income and Expenditure Account £'000	Total £'000
Balance at 20 February 2015	100	25,097	25,197
Loss for the year	-	(117)	(117)
<b>Balance at 20 February 2016</b>	<b>100</b>	<b>24,980</b>	<b>25,080</b>
Balance at 20 February 2016	100	24,980	25,080
Profit for the year	-	87	87
<b>Balance at 20 February 2017</b>	<b>100</b>	<b>25,067</b>	<b>25,167</b>

The notes on pages 11 to 23 form an integral part of these Financial Statements.

# CASH FLOW STATEMENT

For the year ended 20 February 2017

	2017 £'000	2016 £'000
<b>Operating activities</b>		
Profit/(loss) for the year	87	(117)
Realised gains on investments	(295)	(581)
Unrealised exchange gain	(55)	(8)
Unrealised investment (gain)/loss	(2,080)	2,140
Increase in claims provision	3,830	277
(Increase)/decrease in accrued interest and prepaid expenses	(12)	21
Increase in accrued expenses	2	3
Increase in related party balances	(2,331)	(295)
<b>Net cash (outflow)/ inflow from operating activities</b>	<b>(854)</b>	<b>1,440</b>
<b>Investment activities</b>		
Investment purchases	(59,256)	(67,877)
Investment sales	59,693	66,760
<b>Net cash inflow/(outflow) from investing activities</b>	<b>437</b>	<b>(1,117)</b>
Unrealised exchange gain	55	8
Net (decrease) / increase in cash and cash equivalents	(362)	331
Cash and cash equivalents at 21 February	511	180
<b>Cash and cash equivalents at 20 February</b>	<b>149</b>	<b>511</b>

The notes on pages 11 to 23 form an integral part of these Financial Statements.

## 1. Constitution

The Association was incorporated in the Isle of Man on 9 February 1999 and received authorisation from the Isle of Man Financial Services Authority ('IOMFSA') to carry on an insurance business in or from the Isle of Man on 17 February 1999.

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

In the event of the Association's liquidation the net assets of the Association are to be distributed in proportion to the amount of contributions paid by Members to UKFD&D during the period of six years preceding the commencement of the winding-up.

The Association assumes 90% of the retained legal costs and expenses insurance risks of The United Kingdom Freight Demurrage and Defence Association Limited ("UKFD&D") as set out in the revised reinsurance agreement dated 31 December 2015. UKFD&D is a UK based insurance company, related through common membership.

## 2. Accounting policies

### a) Accounting disclosures

The financial statements have been prepared in accordance with United Kingdom accounting standards as applicable to an Isle of Man company. The financial statements are prepared on an annual basis under the historical cost convention as modified to include certain items at fair value, and in accordance with Financial Reporting Standard ("FRS") 102 issued by the Financial Reporting Council. In addition, all insurance balances have been accounted for under the requirements of FRS 103 'Insurance contracts'.

The functional currency of the Association is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

### b) Financial assets and liabilities

The Association has applied the requirements of FRS 102 sections 11 and 12 to the measurement, presentation and disclosure of its financial assets, including investments. Basic financial assets include Investments and Cash and cash equivalents. Basic financial liabilities include Related party balances.

Related party balances are recognised at transaction price due to their short term nature. Other accounting policies are shown below.

### c) Foreign currencies

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

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

**2. Accounting policies (continued)****d) Premiums receivable**

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

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

The 90% quota share reinsurance premium is subject to a discount which is agreed on an annual basis with UKFD&D. The Agreed Discount is recorded on an accruals basis.

**e) Claims**

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

The setting of reserves is a complex process and is inherently uncertain and whilst the Directors consider that the gross provisions for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Any differences between the provisions and subsequent settlements are recorded in the Income and Expenditure Account of later years.

**f) Investments**

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

Investments are initially measured at cost. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Fair value is calculated using the bid price at the close of business on the balance sheet date. Listed funds, which consist of Absolute Return Funds, are carried at the latest published Net Asset Value within 3 months of the Balance Sheet date. Unlisted funds comprise of a holding in the "TMI Income Fund", which is carried at the most recently available Net Asset Value.

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

Gains and losses relating to investments are recognised immediately in the income and expenditure account.

## 2. Accounting policies (continued)

### g) Expenses

Management fees and other general and administrative expenses are recorded on an accruals basis.

### h) Derivative financial instruments

Derivatives that do not qualify as hedges are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value through the income and expenditure account. The fair value of forward foreign exchange contracts is determined using the forward foreign exchange rates at the measurement date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Association has no derivatives that are designated and qualify as hedges of a highly probably forecast transaction.

### i) Debtors

Debtors are carried at cost less impairment which is considered to be a suitable proxy for fair value. Debtors are reviewed for impairment as part of the annual impairment review of debtors.

### j) Cash and cash equivalents

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

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

## 3. Critical accounting estimates and judgements

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

### **The ultimate liability arising from claims made under insurance contracts**

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

#### 4 Financial Risk Management

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

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

##### a) Market risk

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

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

As at 20 February 2017	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Investments	41,101	9,386	2,901	53,388
Cash and cash equivalents	139	9	1	149
Derivative financial instruments	(2,267)	741	1520	(6)
Technical provisions	(29,450)	-	-	(29,450)
Related party balances	1,021	-	-	1,021
<b>Total</b>	<b>10,544</b>	<b>10,136</b>	<b>4,422</b>	<b>25,102</b>

As at 20 February 2016	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Investments	37,263	9,514	3,236	50,013
Cash and cash equivalents	126	383	2	511
Derivative financial instruments	(1,267)	(841)	2,164	56
Due from investment brokers	573	1,060	-	1,633
Technical provisions	(25,620)	-	-	(25,620)
Due to investment brokers	-	(258)	-	(258)
Related party balances	(1,310)	-	-	(1,310)
<b>Total</b>	<b>9,765</b>	<b>9,858</b>	<b>5,402</b>	<b>25,025</b>



**4 Financial Risk Management** (continued)

A 10 per cent strengthening of the following currencies against Sterling would be estimated to have increased/(decreased) the profit/(loss) before tax and reserves at the year-end by the following amounts:

As at 20 February 2017	<b>Effect on profit/(loss) before tax £'000</b>
US dollar	921
Euro	402

As at 20 February 2016	<b>Effect on profit/(loss) before tax £'000</b>
US dollar	1,096
Euro	601

A 10 per cent weakening of these currencies against the Sterling would have an equal and opposite effect.

**b) Credit risk**

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Association's exposure primarily relates to amounts recoverable from investment debtors and bank balances.

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

The credit rating bands are provided by independent ratings agencies:

As at 20 February 2017	<b>AAA £'000</b>	<b>AA £'000</b>	<b>A £'000</b>	<b>Not rated / not readily available £'000</b>	<b>Total £'000</b>
Investments	13,440	20,222	5,004	14,722	53,388
Cash and cash equivalents	-	-	149	-	149
Derivative financial instruments	-	-	(6)	-	(6)
<b>Total assets subject to credit risk</b>	<b>13,440</b>	<b>20,222</b>	<b>5,147</b>	<b>14,722</b>	<b>53,531</b>

## 4 Financial Risk Management (continued)

As at 20 February 2016	AAA £'000	AA £'000	A £'000	Not rated / not readily available £'000	Total £'000
Investments	24,208	5,622	5,032	15,151	50,013
Cash and cash equivalents	-	-	511	-	511
Derivative financial instruments	-	-	70	-	70
Due from investment brokers	-	-	-	1,633	1,633
<b>Total assets subject to credit risk</b>	<b>24,208</b>	<b>5,622</b>	<b>5,613</b>	<b>16,784</b>	<b>52,227</b>

## c) Reinsurance risk

The Association's risk can arise from:

- 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 external reinsurance protection;
- inadequate reserves.

The Association assumes 90% of the retained legal costs and expenses insurance risks of UKFD&D. The Association's exposure to reinsurance risk is initiated by the UKFD&D's underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on UKFD&D from a Member. The risk is managed by the underwriting process, acquisition of external reinsurance cover, and the management of claims cost. The Association reviews the results of the reinsurance contract regularly during the year.

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

The Association considers that the liability for reinsurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

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

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

## 4 Financial Risk Management (continued)

	2017 £'000	2016 £'000
Increase in loss ratio by 5 percentage points – decrease in profit	(727)	(775)
Decrease in loss ratio by 5 percentage points – increase in profit	727	775

**d) Liquidity risk**

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

A portion of Investments are specifically held to settle the Association's technical provisions due to UKFD&D (see note 11A: Debenture).

	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
As at 20 February 2017				
Investments	53,388	-	-	53,388
Cash and cash equivalent	149	-	-	149
Derivative financial instruments	(6)	-	-	(6)
Technical provisions	(19,531)	(8,337)	(1,582)	(29,450)
Related party balances	1,021	-	-	1,021
<b>Total</b>	<b>35,021</b>	<b>(8,337)</b>	<b>(1,582)</b>	<b>25,102</b>

	Within 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
As at 20 February 2016				
Investments	50,013	-	-	50,013
Cash and cash equivalent	511	-	-	511
Derivative financial instruments	56	-	-	56
Due from investment brokers	1,633	-	-	1,633
Technical provisions	(16,891)	(8,502)	(227)	(25,620)
Due to investment brokers	(258)	-	-	(258)
Related party balances	(1,310)	-	-	(1,310)
<b>Total</b>	<b>33,754</b>	<b>(8,502)</b>	<b>(227)</b>	<b>25,025</b>

**4 Financial Risk Management** (continued)**e) Limitation of the sensitivity analyses**

The sensitivity analyses above show the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above. There have been no changes to methods and assumptions used in the calculation of sensitivity analyses from the previous year.

**f) Capital Management**

The Association maintains capital, comprising of guarantee fund and reserves, consistent with the Association's risk appetite and the regulatory requirements.

The Association's regulator is the Isle of Man Financial Services Authority ("IOMFSA") in the Isle of Man. Under the IOMFSA's regime the Association is obliged to assess and maintain the amount of net assets in excess of the required minimum solvency margin. The provisions of the Isle of Man Insurance Regulations 1986 (as amended) set the minimum level of solvency required of the Association in the Isle of Man.

The minimum solvency margin required at the year end was £877,100 (2016: £924,900). At the year end the Association's capital resources included reserves of £25,167,000 (2016: £25,080,000) which exceeded the minimum solvency requirement by £24,289,900 (2016: £24,155,100). The Association, therefore, complied with the externally imposed capital requirements to which it is subject.

**g) Fair value estimations**

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (that is, prices) or indirectly (that is, derived from prices)

Level 3 – Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

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

As at 20 February 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	16,876	36,511	-	53,388
Cash and cash equivalents	149	-	-	149
Derivative financial instruments	-	5	-	5
<b>Total</b>	<b>17,025</b>	<b>36,516</b>	<b>-</b>	<b>53,542</b>

**4 Financial Risk Management** (continued)

As at 20 February 2016	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Investments	27,312	22,701	-	50,013
Cash and cash equivalents	511	-	-	511
Derivative financial instruments	-	70	-	70
<b>Total</b>	<b>27,823</b>	<b>22,771</b>	<b>-</b>	<b>50,594</b>

**5. Taxation**

The income of the Association is subject to Manx Income Tax at the rate of 0% (2016: 0%).

**6. Investment income**

	<b>2017 £'000</b>	<b>2016 £'000</b>
Bond interest	793	764
Bank deposit interest	11	8
Currency gains	1,833	1,051
Custodian fees	(8)	(14)
<b>Investment income</b>	<b>2,629</b>	<b>1,809</b>

**7. General and administrative expenses**

	<b>2017 £'000</b>	<b>2016 £'000</b>
Audit fees	18	18
Directors' fees	35	30
Directors' and officers' insurance	9	9
Directors' and managers' travel	11	11
Government fees	6	5
Other expenses	2	6
	<b>81</b>	<b>79</b>

**8. Management fee**

The fee paid to the Managers of £288,000 (2016: £272,200) covers the cost of providing insurance management services, offices, staff and administration in the Isle of Man, and includes investment management services provided by a company in the same group as the Managers (see also note 13 for related party disclosures).

**9. Investments**

	<b>Cost 2017 £'000</b>	<b>Fair value 2017 £'000</b>	<b>Cost 2016 £'000</b>	<b>Fair value 2016 £'000</b>
Government and corporate bonds	39,039	39,538	33,567	33,864
Equities	10,238	12,564	11,017	10,759
Absolute return funds	162	174	2,716	3,163
UCITS	1,108	1,112	2,191	2,227
<b>Total investments</b>	<b>50,547</b>	<b>53,388</b>	<b>49,491</b>	<b>50,013</b>

	<b>2017 £'000</b>	<b>2017 £'000</b>	<b>2016 £'000</b>	<b>2016 £'000</b>
Investments	34,284	37,053	49,491	50,013
Segregated investment account	16,263	16,335	-	-
<b>Total investments</b>	<b>50,547</b>	<b>53,388</b>	<b>49,491</b>	<b>50,013</b>

**10. Derivative financial instruments****a) Cash flow hedges**

The Association does not use forward currency contracts that meet the hedge accounting criteria.

**b) Non hedge derivatives**

Forward currency contracts are entered into in order to manage the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies which are matched by holdings of those currencies. The open contracts have been re-valued at year-end rates of exchange. The profit or loss on exchange on these contracts is included within exchange gains and losses. These are economic hedges, but do not meet the hedge accounting criteria.

**10. Derivative financial instruments** (continued)

The table below analyses all derivative positions:

	2017			2016		
	Contract amount £'000	Fair value asset £'000	Fair value liability £'000	Contract amount £'000	Fair value asset £'000	Fair value liability £'000
<b>Forward currency contracts</b>						
Non hedge derivatives	6,676	5	(11)	6,940	70	(14)
<b>Total</b>	<b>6,676</b>	<b>5</b>	<b>(11)</b>	<b>6,940</b>	<b>70</b>	<b>(14)</b>

**11. Debenture**

The Association has covenanted to discharge under two debentures certain liabilities to UKFD&D, to whom the Association provides reinsurance.

**A. Debenture – fixed charge**

- The Association's liabilities under the reinsurance agreement to UKFD&D held in a segregated investment account up to an amount of £16 million.

**B. Debenture – floating charge**

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

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

**12. Technical Provisions**

The nature of the business makes it very difficult to predict the likely outcome of any particular case and to estimate the cost of future claims. The estimates for known outstanding claims are based on the best estimates of the Directors of the likely cost of individual cases, and the extent of the Association's current commitment to the cost of these cases. These estimates are as accurate as possible given the details of the cases and taking into account all the current information. The estimates are reviewed regularly.

The movement in the gross provision for claims is the difference between the provision for outstanding claims on all policy years at the beginning of the year and the equivalent provision at the end of the year, after deduction of all claims paid during the financial year and addition of new claims notified in the 2016 policy year.

**12. Technical Provisions** (continued)

<b>Movement in technical provisions</b>	<b>2017 £'000</b>	<b>2016 £'000</b>
Total at the beginning of the year	25,620	25,343
Claims paid	(8,387)	(9,280)
Claims incurred during the year	12,217	9,557
<b>Total at the end of the year</b>	<b>29,450</b>	<b>25,620</b>

As analysis of technical provisions between those claims due within one year and those due after one year is given below.

	<b>2017 £'000</b>	<b>2016 £'000</b>
Current	19,531	16,891
Non-current	9,919	8,729
<b>Total technical provisions</b>	<b>29,450</b>	<b>25,620</b>

**Development claim tables**

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The table shows a policy year by year analysis of the technical provisions as shown in the statement of financial position. The Association has elected to disclose only six years of claims experience data in its claims development tables as permitted by FRS 103 Insurance Contracts. These disclosures will be extended for an additional year in each succeeding year until the 10-year information requirement has been satisfied.



**12. Technical Provisions** (continued)

Net estimate of ultimate claims cost attributable to policy year

Reporting year	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
- At the end of the reporting year	9,450	10,890	10,125	9,450	9,810	9,450	10,935
- One year later	10,170	12,285	8,235	9,090	11,765	9,104	-
- Two years later	11,025	11,520	7,515	9,045	14,040	-	-
- Three years later	10,665	11,475	7,380	8,658	-	-	-
- Four years later	11,482	10,530	7,313	-	-	-	-
- Five years later	10,620	10,755	-	-	-	-	-
- Six years later	10,764	-	-	-	-	-	-
Current estimate of cumulative claims	10,764	10,755	7,313	8,658	14,040	9,104	10,935
Cumulative payments to date	(10,136)	(9,788)	(6,087)	(6,791)	(8,372)	(4,100)	(1,778)
Liability in the balance sheet	628	968	1,226	1,867	5,668	5,005	9,157
Total liability relating to the last seven policy years							24,518
Prior years reserve							4,932
<b>Total technical provisions in the balance sheet</b>							<b>29,450</b>

**13. Related party disclosures and ultimate controlling parties**

The Association has no share capital and is controlled by the Members. A Member is any person to whom UKFD&D has afforded primary insurance which is subsequently reinsured into the Association. Members of the Association are therefore also Members of UKFD&D, under that Association's rules. At the balance sheet date there were over 2,475 Members and therefore, no one Member is able to assert significant control.

The Association's principal activity is the business of an insurance company providing reinsurance cover to an entity under common control. Consequently, insurance premiums written and received and, claims and commission paid and provided for are considered to be related party transactions in accordance with FRS 102 Section 33.

At 20 February 2017 £1,021,000 was due from UKFD&D (2016: £1,310,000 was due to UKFD&D).

Mr R Lingard is also a Director of the Managers, Thomas Miller (Isle of Man) Limited. The Managers' fee is disclosed in Note 8.

The investment services are sub-contracted by the Managers to Thomas Miller Investment (Isle of Man) Limited who are in the same group as the Managers. The investment managers fees are included in the management fees, as shown in note 8.

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





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Registered in the Isle of Man  
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