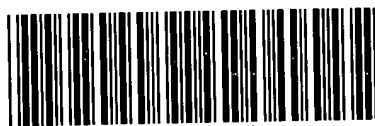


**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
20 FEBRUARY 2016**



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COMPANIES HOUSE

Company number: 00501877

**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

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**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

DIRECTORS

E. F. André

M. Bottiglieri

B. C. Goulandris

G. A. Gratsos

T.S. Huxley

Appointed 23 April 2015

C. R. Kendall

P. C. Laskaridis

Resigned 18 June 2015

M. F. Lykiardopulo

Chairman

M. Nomikos

S. Palios

P. Pappas

M. G. Pateras

T. A. Stafilopatis

Tan Chin Hee

Y. T. Triphyllis

M. R. Wade

G. D. Weston

G. Woodford

Zhang Lanshui

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

STRATEGIC REPORT

PRINCIPAL ACTIVITIES

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

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

The number of ships entered in the Association at the year end on 20 February 2016 was 3,935 (3,042 owned and 893 chartered), compared with 3,694 ships (2,914 owned and 780 chartered) on 20 February 2015, an overall increase of 7%.

FINANCIAL REVIEW

As shown in the Association's Consolidated Income and Expenditure Account on page 8, the year ended with a surplus on the technical account of £733,000 (2015: £408,000 surplus). After investment income, exchange gains/losses and taxation, there was an overall surplus for the year of £206,000 (2015: £1,218,000 surplus). The reduction in surplus was mainly caused by the introduction of a continuity credit scheme in the current year whereby longstanding Members pay a reduced premium.

The surplus for the year led to a rise in the Association's accumulated reserves (shown on the Consolidated Balance Sheet of the Association and its subsidiary, set out on page 7) from a surplus of £3,174,000 at 20 February 2015 to a surplus of £3,380,000 at 20 February 2016.

The Association's gross claims reserves at 20 February 2016 were £28,939,000 (2015: £28,317,000), an overall increase of £622,000 in the year.

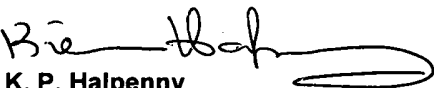
The reserves at 20 February 2016, together with calls made on Members after that date, are available and, in the opinion of the Directors, meet the Association's outgoings and the legal costs and other expenses of the Association's business.

The Association's approach to financial risk management and a review of the principal risks and uncertainties is disclosed in note 4 of the financial statements.

TRANSITION TO FRS 102

This is the first year that the Association has presented its results under FRS 102 'The Financial Reporting Standard, applicable in the UK and Republic of Ireland'. The last financial statements under previous UK GAAP were for the year ended 20 February 2015. In accordance with FRS 102, the Association has identified its insurance contracts and accounted for them in accordance with FRS 103 'Insurance Contracts'. The impact of the transition to FRS 102 is set out in Note 20 'Explanation of transition to FRS 102'.

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


K. P. Halpenny
Secretary

21 April 2016

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Report and the Financial Statements of the Association for the year ended 20 February 2016.

DIRECTORS

The Directors who held office during the year are listed on page 1.

In accordance with the Articles of Association, all the Directors retire at the forthcoming Annual General Meeting to be held on 15 September 2016 and will be eligible for re-election.

MEETINGS OF DIRECTORS

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

A substantial portion of each meeting involved the consideration of Members' cases in which the Association's support was requested for court or arbitration proceedings, the Directors considering 34 major cases during the year. The Managers also considered a substantial number of requests for support in proceedings under the authority delegated to them by the Directors and reports on those cases were presented to the Board at each meeting. Of all the cases formally considered by the Board or the Managers, 94% received a significant measure of support from the Association, illustrating the importance attached by both Board and Managers to the Association being supportive of its Members whenever the circumstances render that possible.

The work of the Association remains substantial with approximately 3,282 case files open as at 20 February 2016. The Managers continue to advise and support Members who are involved with disputes and are frequently able to help them reach satisfactory terms of settlement without proceedings.

Likely future developments that may affect the Association include insolvencies of operators including bunker suppliers as further discussed in note 2(f) to the Financial Statements.

The Board of Directors has effected a Directors' and Officers' Liability Insurance policy to indemnify the Directors and Officers of the Association against loss arising from any claim against them jointly or severally by reason of any wrongful act in their capacity as Directors or Officers of the Association. The insurance also covers the Association's loss when it is required or permitted to indemnify the Directors or Officers pursuant to common law, statute, or the Articles of Association. The cost of the insurance is met by the Association and is included in net operating expenses.

AUDITOR

Each of the persons who is a Director at the date of approval of this report confirms that:

- 1) so far as the Director is aware, there is no relevant audit information of which the Association's auditor is unaware;
- 2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Association's auditor is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Grant Thornton UK LLP as the Association's auditor will be proposed at the forthcoming Annual General Meeting.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' REPORT DISCLOSURES

The Association's financial instruments comprise its financial investments, cash, and various items arising directly from operations such as insurance and other debtors, technical provisions and creditors. The main risks arising from these financial instruments are credit risk, market risk, and insurance risk. The Association's approach to management of these risks is disclosed in the Strategic Report.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Association and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



K. P. Halpenny
Secretary

21 April 2016

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

We have audited the financial statements of The United Kingdom Freight Demurrage and Defence Association Limited for the year ended 20 February 2016 which comprise the consolidated income and expenditure account, the consolidated statement of other comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statement of changes in reserves, the consolidated cash flow statement and the related notes. 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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

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

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 20 February 2016 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE UNITED KINGDOM
FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED (Continued)**

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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



Andrew Heffron
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
21 April 2016

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Year ended 20 February 2016

	Note	2016 £'000	2015 £'000
Technical Account			
Gross premiums written		18,446	18,519
Outward reinsurance premiums	5	(15,898)	(16,062)
Agreed discount on outward reinsurance premiums		5,957	5,566
		<u>8,505</u>	<u>8,023</u>
Claims incurred net of reinsurance	18	(4,183)	(3,986)
Net operating expenses	7	(3,589)	(3,629)
Balance on the technical account		<u>733</u>	<u>408</u>
Non Technical Account			
Balance on the technical account		733	408
Investment income	10	25	15
Exchange (losses) / gains		(548)	792
Surplus on ordinary activities before tax		<u>210</u>	<u>1,215</u>
Tax on ordinary activities	17	(4)	3
Surplus on ordinary activities after tax and transferred to reserves		<u>206</u>	<u>1,218</u>

All activities represent continuing activities.

The notes on pages 12 to 29 form an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 20 February 2016

	Note	2016 £'000	2015 £'000
Surplus on ordinary activities after tax		206	1,218
Other comprehensive income			
Amounts recycled into surplus		398	(603)
Fair value gains/(losses)		(713)	(438)
		<u>(315)</u>	<u>(1,041)</u>
Total comprehensive income for the year		<u>(109)</u>	<u>177</u>

**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

CONSOLIDATED BALANCE SHEET

20 February 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Investments			
Other financial investments	12	3,418	2,677
Derivative financial investments	14	9	22
Reinsurers' share of technical provisions	18	26,092	25,501
Debtors	15	2,456	3,064
Cash and cash equivalents		648	816
Total assets		<u>32,623</u>	<u>32,080</u>
RESERVES			
Income and expenditure account		3,380	3,174
Hedging reserve		(743)	(428)
Total reserves		<u>2,637</u>	<u>2,746</u>
LIABILITIES			
Technical provisions	18	28,939	28,317
Derivative financial instruments	14	752	450
Creditors	16	295	567
Total liabilities		<u>29,986</u>	<u>29,334</u>
Total liabilities and reserves		<u>32,623</u>	<u>32,080</u>

The financial statements of The United Kingdom Freight Demurrage and Defence Association Limited, registration number 00501877, were approved by the Board of Directors and authorised for issue on 21 April 2016. They were signed on its behalf by:

Directors

M. F. Lyklardopulo

M. G. Pateras

Managers

D. J. Evans

The notes on pages 12 to 29 form an integral part of these financial statements.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

ASSOCIATION (PARENT COMPANY) BALANCE SHEET

20 February 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Investments			
Other financial investments	12	3,418	2,677
Shares in group undertakings	13	-	50
Derivative financial instruments	14	9	22
Reinsurers' share of technical provisions	18	26,092	25,501
Debtors	15	2,456	3,019
Cash and cash equivalents		648	816
Total assets		<u>32,623</u>	<u>32,085</u>
RESERVES			
Income and expenditure account		3,380	3,179
Hedging reserve		(743)	(428)
Total reserves		<u>2,637</u>	<u>2,751</u>
LIABILITIES			
Technical provisions	18	28,939	28,317
Derivative financial instruments	14	752	450
Creditors	16	295	567
Total liabilities		<u>29,986</u>	<u>29,334</u>
Total liabilities and reserves		<u>32,623</u>	<u>32,085</u>

The financial statements of The United Kingdom Freight Demurrage and Defence Association Limited, registration number 00501877, were approved by the Board of Directors and authorised for issue on 21 April 2016. They were signed on its behalf by:

Directors

M. F. Lykiardopulo

M. G. Pateras

Managers

D. J. Evans

The notes on pages 12 to 29 form an integral part of these financial statements.

**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

Year ended 20 February 2016

	£'000	Attributable to members £'000	£'000
	Income and expenditure account	Hedging reserve	Total
Balance at 20 February 2014	1,956	613	2,569
Surplus for the year	1,218	-	1,218
Other comprehensive income for the year	-	(1,041)	(1,041)
Total comprehensive income for the year	1,218	(1,041)	177
Balance at 20 February 2015	3,174	(428)	2,746
Surplus for the year	206	-	206
Other comprehensive income for the year	-	(315)	(315)
Total comprehensive income for the year	201	(315)	(109)
Balance at 20 February 2016	3,380	(743)	2,637

ASSOCIATION (PARENT COMPANY) STATEMENT OF CHANGES IN RESERVES

Year ended 20 February 2016

	£'000	Attributable to members £'000	£'000
	Income and expenditure account	Hedging reserve	Total
Balance at 20 February 2014	1,961	613	2,574
Surplus for the year	1,218	-	1,218
Other comprehensive income for the year	-	(1,041)	(1,041)
Total comprehensive income for the year	1,218	(1,041)	177
Balance at 20 February 2015	3,179	(428)	2,751
Surplus for the year	201	-	201
Other comprehensive income for the year	-	(315)	(315)
Total comprehensive income for the year	201	(315)	(114)
Balance at 20 February 2016	3,380	(743)	2,637

The notes on pages 12 to 29 form an integral part of these Financial Statements.

**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

**CONSOLIDATED
CASH FLOW STATEMENT**

Year ended 20 February 2016

	2016 £'000	2015 £'000
Operating activities		
Calls and premiums received	18,447	19,270
Reinsurance premium paid	(9,986)	(10,481)
Claims paid	(13,786)	(12,789)
Reinsurance recoveries received	9,525	7,351
Acquisition costs	(796)	(708)
Operating expenses paid	(2,767)	(2,998)
Interest and dividends received	25	15
Taxation paid	(63)	28
Net cash provided by operating activities	<u>599</u>	<u>(312)</u>
Investing activities		
Purchase of investments	(11,411)	(10,776)
Sale of investments	10,673	11,632
Net cash used in investing activities	<u>(738)</u>	<u>855</u>
Net (decrease) / increase in cash and cash equivalents	<u>(139)</u>	<u>543</u>
Cash and cash equivalents at the beginning of the year	816	222
Effect of exchange rate fluctuations on cash and cash equivalents	(29)	51
Cash and cash equivalents at the end of the year	<u><u>648</u></u>	<u><u>816</u></u>

The notes on pages 12 to 29 form an integral part of these Financial Statements.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Constitution

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

In the event of the company's liquidation the net assets of the Association are to be distributed in proportion to the amount of contributions paid by Members during the preceding six years.

2 Accounting Policies

(a) Accounting disclosures

These financial statements have been prepared under the provisions of Section 408 of the Companies Act 2006, which detail the disclosure requirements for income and expenditure accounts in group accounts, and comply with applicable United Kingdom accounting standards. The financial statements are prepared on an annual basis under the historical cost convention as modified to include certain items at fair value, and in accordance with Financial Reporting Standard ("FRS") 102 - Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and 103 – Insurance contracts issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 20.

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. This has been selected on the basis that materially all of the Association's claims and expenses are paid in pound sterling, and the Association's main reinsurance contract with UKDIA is denominated in pound sterling. The consolidated financial statements are also presented in pounds sterling.

The Association meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside these consolidated financial statements. Exemptions have been taken in relation to presentation of a cash-flow statement and intra-group transactions.

(b) Basis of consolidation

The Association's consolidated financial statements include the financial statements of the Company and its subsidiary undertakings up to 20 February 2016. A subsidiary is an entity controlled by the Association. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Any subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively. Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated income and expenditure account. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(c) Foreign currencies

Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. The resulting difference is treated as unrealised. The costs of investments are translated into sterling at the rate applicable for the date on which they were purchased.

Revenue transactions are translated into sterling at the rate applicable for the date on which they took place.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Accounting Policies (Continued)

Differences between closing exchange rates and the rates applying to outstanding forward currency contracts are also recognised. All exchange gains/losses other than on forward exchange contracts that are designated and qualify as hedges (see 2(g)), whether realised or unrealised have been included in the Consolidated Income and Expenditure Account for the year.

(d) Gross premiums written

Calls and premiums are net of return premiums and continuity credits and are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any adjustments in respect of prior accounting periods. Continuity credits represent a reduced premium amount for longstanding Members and are recognised as part of the related premium amount. There are no unearned premiums as all policies expire on or before the balance sheet date.

(e) Outward reinsurance premiums

Outward reinsurance premiums are the total payable in respect of excess of loss and quota share reinsurances for the period to which the relevant contracts relate. Quota share reinsurance premiums are subject to an overriding commission in the form of an agreed discount, the rate of which for each policy year is agreed with UKDIA.

The agreed discount is recognised in the consolidated income and expenditure amount when corresponding reinsurance premiums are recognised.

(f) Claims

These are the legal costs and expenses of the Members covered by the Association. They include all claims incurred during the year, whether paid, estimated or unreported, together with internal claims management costs and future claims management costs and adjustments for claims outstanding from previous years.

A forecast of unreported claims is based on the estimated ultimate cost of claims arising out of events which have occurred before the end of the accounting period but have not yet been reported. The Directors' estimate for these future claims is based on the estimate of unreported claims on each policy year. The estimates are calculated by comparing the pattern of claims payments and estimates in current policy years with earlier policy years, and then projecting the outcomes of the more recent years.

The Association utilises a variety of actuarial techniques to determine its ultimate liability which include development factor methods, Bornhuetter-Ferguson methods and a bootstrapping methodology. These techniques assume that the future will be broadly similar to the past.

The Association assesses at the end of each reporting period whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, the entire deficiency is recognised in the consolidated income and expenditure account.

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

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Accounting Policies (Continued)

Due to current market conditions claims exposure in 2014 has been affected by insolvencies of operators including bunker suppliers. As a result of their higher costs and atypical nature a different approach has been taken to allow for some of these claims.

The results of an exposure analysis have been incorporated in determining the reserves for such claims and have been projected to arrive at a best estimate based on a weighted average of probability of success in different jurisdictions.

These claims may be subject to a higher degree of uncertainty than is normal for the Association as the events can lead to multiple claims which may involve various types of litigation. The liability provided for on these claims are based on management's best estimate of the ultimate settlement cost utilising a weighted average probability of success. The ultimate settlement cost may not be apparent until some years after the relevant insolvency event.

Claims of this type do not lend themselves to traditional actuarial techniques and the uncertainty surrounding the ultimate cost of settlement is greater than for more standard claims within the Association's businesses. An additional amount has been added for unreported claims.

The Association enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of the reinsurance contract.

(g) Other financial investments

The Association has applied the requirements of FRS 102 sections 11 and 12 to the measurement, presentation and disclosure of its financial assets. Investments in short term deposit funds and the foreign exchange security deposit are designated in both the Consolidated and Association (Parent Company) Balance Sheets at fair value through profit and loss. Fair value is calculated using the bid price at the close of business on the balance sheet date. Those purchased in foreign currencies are translated into sterling on the date of purchase. The fair value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date. The investment in the Subsidiary is carried at cost in the Association (Parent Company) Balance Sheet.

(h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges of a highly probably forecast transaction is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated income and expenditure account.

Amounts accumulated in reserves are recycled to surplus in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Accounting Policies (Continued)

the consolidated income and expenditure account. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income and expenditure account.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

(j) Debtors

Debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and include Members' contributions, claims deductibles recoverable from Members and reinsurance receivables. Debtors are carried at cost less impairment. Debtors are reviewed for impairment as part of the annual impairment review of debtors.

(k) Investment income

This comprises income received during the year adjusted in respect of interest receivable at the year end, and profits and losses on the sale of investments and gains and losses on closed forward currency contracts.

The unrealised gains and losses on the movement in the fair value of the investments are included in the non-technical account. No transfer is made of the investment returns from the non-technical account to the technical account, as this is not considered appropriate.

(l) Consolidation

The Association has taken advantage of the Companies Act 2006, section 408 exemption not to present an Income and Expenditure Account for the parent company.

(m) Taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 102 section 29.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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. For further detail refer to note 2(f).

4 Financial Risk Management

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

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

The Association manages the risks relating to the operations of the Association through internal risk reports which analyse exposures by degree and magnitude of risk.

Market risk

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

Due to the Association's revenue being materially received in US Dollars, the Association has implemented a hedging strategy whereby the Association uses forward contracts to mitigate the potential currency risk on its future premium income. Forward currency contracts have been designated as hedging instruments and the Association regards its future premium income as a highly probable forecast transaction and has designated it as a hedged item under hedge accounting requirements. This relationship has been designated by the Association as cash flow hedges and is monitored by the Association's Board of Directors. In addition, the Association utilises an investment mandate that matches the currency of its assets and liabilities.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

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

	Sterling	US Dollar	Euro	Total
As at 20 February 2016				
Short term deposit funds	1,330	577	-	1,907
Foreign exchange security deposit	1,511	-	-	1,511
Derivative financial instruments	12,925	(13,668)	-	(743)
Reinsurers' share of technical provisions	17,954	4,853	3,285	26,092
Debtors	1,278	1,152	26	2,456
Cash and cash equivalents	148	596	(96)	648
Technical provisions	(20,256)	(4,962)	(3,721)	(28,939)
Creditors	(130)	(160)	(5)	(295)
	<u>14,760</u>	<u>(11,612)</u>	<u>(511)</u>	<u>2,647</u>

	Sterling	US Dollar	Euro	Total
As at 20 February 2015				
Short term deposit funds	737	436	-	1,173
Foreign exchange security deposit	1,504	-	-	1,504
Derivative financial instruments	10,795	(11,222)	-	(428)
Reinsurers' share of technical provisions	16,576	5,100	3,825	25,501
Debtors	1,555	1,509	-	3,064
Cash and cash equivalents	319	409	88	816
Technical provisions	(18,406)	(5,663)	(4,248)	(28,317)
Creditors	(365)	(202)	-	(567)
	<u>12,715</u>	<u>(9,633)</u>	<u>(335)</u>	<u>2,746</u>

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

As at 20 February 2016	Effect on surplus after tax
Dollar	(640)
Euro	<u>(26)</u>
As at 20 February 2015	
Dollar	(511)
Euro	<u>(17)</u>

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

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Association's objective is to reduce credit risk through the risk management techniques discussed below.

The Association's exposure primarily relates to amounts recoverable from reinsurance contracts, debtors and bank balances. Exposure to reinsurance counterparties is mitigated by the Association placing its external reinsurances with counterparties rated A- or better. On its 90% reinsurance programme, the Association has the benefit of a legal charge in the form of a fixed charge debenture over UKDIA's assets which mitigate the Association's exposure to Reinsurers' share of technical provisions. Exposure to debtors, which is mainly in respect of calls and premium contributions, is spread over a large number of Members and counterparties, which mitigates the risk. Exposure to bank balances, however, is more concentrated, with two main counterparties and the risk is mitigated by placing funds surplus to normal operational requirements in money market funds and other investments.

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

The credit rating bands are provided by independent ratings agencies:

As at 20 February 2016	AAA	AA - A	BBB	Not rated / not readily available	Total
Short term deposit funds	1,907	-	-	-	1,907
Foreign exchange security deposit	-	-	1,511	-	1,511
Derivative financial instruments	-	-	(743)	-	(743)
Reinsurers' share of technical provisions	-	472	-	25,620	26,092
Debtors	-	-	-	2,456	2,456
Cash and cash equivalents	-	1,045	-	(398)	647
Total assets subject to credit risk	1,907	472	1,814	27,678	31,870

As at 20 February 2015	AAA	AA - A	BBB	Not rated / not readily available	Total
Short term deposit funds	1,173	-	-	-	1,173
Foreign exchange security deposit	-	-	1,504	-	1,504
Derivative financial instruments	-	-	(428)	-	(428)
Reinsurers' share of technical provisions	-	-	-	25,501	25,501
Debtors	-	-	-	3,064	3,064
Cash and cash equivalents	-	896	-	(80)	816
Total assets subject to credit risk	1,173	896	1,076	28,485	31,630

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

Insurance risk

The Association's risk can arise from:

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

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

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

The Association considers that the liability for insurance claims recognised in the consolidated statement of financial position is adequate. However, actual experience will differ from the expected outcome.

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

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

	2016 £'000	2015 £'000
Increase in loss ratio by 5 percentage points		
Gross	(922)	(926)
Net	<u>(92)</u>	<u>(93)</u>
Decrease in loss ratio by 5 percentage points		
Gross	922	926
Net	<u>92</u>	<u>93</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

Liquidity risk

The Association manages this risk by the use of liquid investments and its ability to call upon its quota share reinsurer, UKDIA, in the event of a significant outflow of funds. The Association also has the benefit of a legal charge in the form of a debenture over UKDIA's investments and other assets.

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:

As at 20 February 2016	Within 1 year	1 to 5 years	Over 5 years	Total
Assets and liabilities				
Short term deposit funds	1,907	-	-	1,907
Foreign exchange security deposit	1,511	-	-	1,511
Derivative financial instruments	(746)	3	-	(743)
Reinsurers' share of technical provisions	17,202	8,659	231	26,092
Debtors	2,456	-	-	2,456
Cash and cash equivalents	648	-	-	648
Technical provisions	(19,078)	(9,605)	(256)	(28,939)
Creditors	(295)	-	-	(295)
Total	3,605	(943)	(25)	2,637

As at 20 February 2015	Within 1 year	1 to 5 years	Over 5 years	Total
Assets and liabilities				
Short term deposit funds	1,173	-	-	1,173
Foreign exchange security deposit	1,504	-	-	1,504
Derivative financial instruments	(428)	-	-	(428)
Reinsurers' share of technical provisions	11,083	12,375	2,043	25,501
Debtors	3,064	-	-	3,064
Cash and cash equivalents	816	-	-	816
Technical provisions	(12,307)	(13,741)	(2,269)	(28,317)
Creditors	(567)	-	-	(567)
Total	4,338	(1,367)	(226)	2,746

Operational Risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association has engaged Thomas Miller Defence Limited as managers to document all key processes and controls in a procedural manual. This manual is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Audit and Risk Committee. A human resource manual including all key policies have also been documented.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

Capital Management

The Association maintains capital, comprising of surplus and reserves, consistent with the Association's risk appetite and the regulatory requirements. Under the Solvency 2 regime introduced on 1 January 2016, the Association has been approved by its regulator a capital benefit associated with the Association's ability to make a contingency call to its Members. This is initially calculated as £2,610,000

The Association's continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the new Solvency 2 regime the Association is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 per cent confidence level of solvency. Throughout the period the Association complied with the regulators capital requirements.

Limitation of the sensitivity analyses

The sensitivity analyses above show the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

Fair value estimations

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

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

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

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

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

As at 20 February 2016	Level 1	Level 2	Level 3	Total
Short term deposit funds	1,907	-	-	1,907
Foreign exchange security deposit	1,511	-	-	1,511
Derivative financial instruments	-	(743)	-	(743)
Cash and cash equivalents	648	-	-	647
Total	<u>4,066</u>	<u>(743)</u>	<u>-</u>	<u>3,322</u>
As at 20 February 2015	Level 1	Level 2	Level 3	Total
Short term deposit funds	1,173	-	-	1,173
Foreign exchange security deposit	1,504	-	-	1,504
Derivative financial instruments	-	(428)	-	(428)
Cash and cash equivalents	816	-	-	816
Total	<u>3,493</u>	<u>(428)</u>	<u>-</u>	<u>3,065</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

Financial instruments

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

	2016 £'000	2015 £'000
Financial assets measured at fair value through profit and loss	<u>4,066</u>	<u>3,493</u>
Financial assets measured at amortised cost	<u>2,456</u>	<u>3,064</u>
Net financial liabilities measured at fair value through other comprehensive income	<u>(743)</u>	<u>(428)</u>
Financial liabilities measured at amortised cost	<u>(295)</u>	<u>(567)</u>

5 Outward Reinsurance Premiums

	2016 £'000	2015 £'000
Excess loss premium	(400)	(366)
90% quota share premium	<u>(15,498)</u>	<u>(15,696)</u>
	<u>(15,898)</u>	<u>(16,062)</u>

The 90% quota share reinsurance premium is subject to a discount which is agreed on an annual basis with the reinsurance quota share provider, The United Kingdom Defence Insurance Association (Isle of Man) Limited (UKDIA).

6 Gross Claims Paid

	Note	2016 £'000	2015 £'000
Legal costs and expenses		(10,312)	(9,481)
Claims handling costs:			
Management fee	8	(3,119)	(3,043)
Other expenses	7	<u>(266)</u>	<u>(221)</u>
		<u>(13,697)</u>	<u>(12,745)</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7	Net Operating Expenses	Note	2016 £'000	2015 £'000
	Management fee	8	(2,080)	(2,028)
	Directors' remuneration	9	(208)	(165)
	Auditor's remuneration:			
	Audit fees in relation to the audit of the Association's annual accounts		(26)	(20)
	Non-audit fees in relation to tax compliance services		(4)	(5)
	Brokerage		(825)	(714)
	Other expenses		(712)	(918)
			<u>(3,855)</u>	<u>(3,850)</u>
	Net operating expenses allocated to claims handling	6	266	221
			<u>(3,589)</u>	<u>(3,629)</u>

8 Management Fee

The fee covers the Managers', Thomas Miller Defence Limited's, costs of providing offices, staff and administration. It is fixed by the Directors in accordance with the Rules. No loan has been made to the Managers and none is contemplated. The Association itself had no employees throughout the year.

The management fee is apportioned between the different management functions and consists of acquisition costs, which include the cost of underwriting and credit control; claims handling costs; and other costs which include accounting, regulatory compliance, and general management. The fee is allocated to these functions on the basis of the underlying cost elements to the management fee which are included in the accounts as follows:

	Note	2016 £'000	2015 £'000
Acquisition costs		(1,664)	(1,623)
Other costs		(416)	(405)
Management fees in Net Operating Expenses	8	(2,080)	(2,028)
Claims handling costs	6	(3,119)	(3,043)
		<u>(5,199)</u>	<u>(5,071)</u>

9 Directors' Fees

	2016 £'000	2015 £'000
Aggregate emoluments	<u>(208)</u>	<u>(165)</u>

Pension contributions are not made in respect of any of the Directors. The Directors' fees for the highest paid director amounted to £37,000 during the current year.

10 Investment Income

	2016 £'000	2015 £'000
Bank deposits	10	4
Return on short term deposit funds	15	11
	<u>25</u>	<u>15</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 Rates of Exchange

The year end rates of exchange equivalent to £1 were:	2016	2015
US dollar	1.4267	1.5371
Euro	1.2846	1.3521

12 Investments

These relate to the Group and the Association (parent company).

	Fair Value		Cost	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Short term deposit funds	1,907	1,173	1,907	1,147
Foreign exchange security deposit	1,511	1,504	1,511	1,500
	<u>3,418</u>	<u>2,677</u>	<u>3,418</u>	<u>2,647</u>

Percentage of cash and interest bearing securities repayable:	2016	2015
within one year	<u>100%</u>	<u>100%</u>

The foreign exchange security deposit is charged to The Royal Bank of Scotland plc as collateral in respect of the Association's forward currency contracts.

13 Shares in subsidiary undertakings

	Association (Parent Company)	
	2016	2015
	£'000	£'000
Shares in group undertakings at cost	<u>-</u>	<u>50</u>

The Association owns 100% of the issued share capital of United Kingdom Defence Reinsurance Association Ltd., a company that is incorporated in Bermuda. This company does not trade. The Company is currently in the process of deregistration with its regulatory authority. This process requires all assets and liabilities of the company to be sold and resulted in a loss on disposal of £5,000 in the Association (Parent Company) Income and Expenditure Account.

14 Derivative financial instruments

	Contract notional amount £'000	2016 Fair value asset £'000	Fair value liability £'000	Contract notional amount £'000	2015 Fair value asset £'000	Fair value liability £'000
Forward currency contracts – Cash flow hedges	<u>12,925</u>	<u>9</u>	<u>(752)</u>	<u>10,795</u>	<u>22</u>	<u>(450)</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Derivative financial instruments (Continued)

The above amounts relate to the Parent Company and the Association.

The Association uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future income being received in United States Dollars. Future premium income is regarded as a highly probable forecast transaction and is designated as a hedged item. Forward currency contracts in relation to the hedged item are designated as a hedging instrument. The relationship between the hedged item and hedging instruments is designated as a cash flow hedge under hedge accounting requirements.

Gains and losses in reserves on forward foreign exchange contracts as at 20th February 2016 will be released to the consolidated income statement over the next two years to match the receipt of future income.

There was no ineffective portion attributable to these hedges.

15 Debtors	The Group		Association (Parent Company)	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Arising out of insurance operations:				
Members' contributions	145	533	145	533
Brokerage	-	55	-	55
Claims deductibles recoverable from Members	701	611	701	611
Due from quota share reinsurer	1,310	1,555	1,310	1,555
	<u>2,156</u>	<u>2,754</u>	<u>2,156</u>	<u>2,754</u>
Other debtors				
Other debtors	300	310	300	260
Due from subsidiary	-	-	-	5
	<u>300</u>	<u>310</u>	<u>300</u>	<u>265</u>
Total debtors	<u>2,456</u>	<u>3,064</u>	<u>2,456</u>	<u>3,019</u>

Debtors arising out of direct insurance operations include a provision for impairment of £181,000 (2015: £213,000) resulting in a release of £32,000 in the current year (2015: provision of £213,000). The current year provision includes an amount of £36,000 for Members considered to be individually impaired.

Debtors arising out of direct insurance operations include an amount of £645,000 (2015: £809,000) that are past due, but not impaired.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 Creditors	The Group		Association (Parent Company)	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Arising out of insurance operations:				
Members' contributions	106	291	106	291
Brokerage	42	14	42	14
Reinsurance creditors	16	60	16	60
	<u>164</u>	<u>365</u>	<u>164</u>	<u>365</u>
Other creditors:				
Corporation tax payable	4	24	4	24
PAYE and social security	54	34	54	34
Other creditors	-	59	-	59
Accruals and deferred income	73	85	73	85
	<u>131</u>	<u>202</u>	<u>131</u>	<u>202</u>
	<u>295</u>	<u>567</u>	<u>295</u>	<u>567</u>

17 Taxation

This relates to the Association (parent company) and is in respect of United Kingdom corporation tax on its assessable investment income and gains/losses at current rates of taxation.

Analysis of tax (credit)/charge for the year:

	2016 £'000	2015 £'000
Corporation tax at 20% (2015: 20%)	4	24
Prior year adjustment	-	(27)
Total current tax	<u>4</u>	<u>(3)</u>

Reconciliation of tax amount

Surplus on ordinary activities before tax	<u>210</u>	<u>1,215</u>
Surplus on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 20%	42	243
Balance on technical account	(147)	(82)
Non-taxable exchange losses	109	(135)
Prior year adjustment	-	(27)
Losses brought forward	-	(2)
Losses carried forward	-	-
	<u>4</u>	<u>(3)</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 Technical Provisions

	2016 £'000	2015 £'000
Technical provisions		
Gross technical provisions	28,939	28,317
Reinsurers' share of gross technical provisions	26,092	25,501
Total net technical provisions	<u>2,847</u>	<u>2,816</u>
 Current	 1,878	 1,224
Non-Current	<u>969</u>	<u>1,592</u>

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 2015 policy year.

The movement on gross incurred claims for prior policy years was a deterioration of £62,000 (2015: release of £871,000).

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

Development claim tables

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Association's estimate of total claims outstanding for each policy year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position.

Gross estimate of ultimate claims cost attributable to policy year

Reporting year	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
- At the end of the reporting year	10,500	12,100	11,250	10,500	10,900	10,500
- One year later	11,300	13,650	9,150	10,100	13,072	
- Two years later	12,250	12,800	8,350	10,050		
- Three years later	11,850	12,750	8,200			
- Four years later	12,758	11,700				
- Five years later	11,800					
Current estimate of cumulative claims	<u>11,800</u>	<u>11,700</u>	<u>8,200</u>	<u>10,050</u>	<u>13,072</u>	<u>10,500</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 Technical Provisions (Continued)

Net estimate of ultimate claims cost attributable to policy year

Reporting year	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
- At the end of the reporting year	1,050	1,210	1,125	1,050	1,090	1,050
- One year later	1,130	1,365	915	1,010	1,260	
- Two years later	1,225	1,280	835	1,005		
- Three years later	1,185	1,275	820			
- Four years later	1,276	1,170				
- Five years later	1,180					
Current estimate of cumulative claims	1,180	1,170	820	1,005	1,260	1,050
Cumulative payments to date	(1,072)	(1,049)	(609)	(685)	(682)	(190)
Net liability recognised in the balance sheet	108	121	211	320	578	860

Total net liability relating to the last six policy years 2,199

Other claims liabilities 648

Total net technical provisions included in the balance sheet 2,847

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

	Gross	2016 RI	Net	Gross	2015 RI	Net
Movement in technical provisions						
Total at the beginning of the year	28,317	25,501	2,816	27,755	24,979	2,776
Claims paid	(13,697)	(9,280)	(4,417)	(12,745)	(8,533)	(4,212)
Claims incurred during the year	11,669	7,486	4,183	10,647	6,661	3,986
Exchange differences and other movements	2,650	2,385	265	2,660	2,394	266
Total at the end of the year	<u>28,939</u>	<u>26,092</u>	<u>2,847</u>	<u>28,317</u>	<u>25,501</u>	<u>2,816</u>

19 Related Party Disclosures

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

All of the Directors are current representatives of Member companies and other than the insurance, which is arranged on an arm's length basis, and Member interests of these companies, the Directors have no financial interests in the Association. Directors' fees are disclosed in note 9.

The Association reinsures with The United Kingdom Defence Insurance Association (Isle of Man) Limited (UKDIA) on a 90% quota share basis. All Members of the Association are automatically also Members of UKDIA. However, none of the Directors of the Association are Directors of UKDIA and UKDIA is not considered to be a related party of the Association.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 Explanation of transition to FRS 102

This is the first year that the Association has presented its financial statements under Financial Reporting Standard 102 and 103 as issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 20 February 2015 and the date of transition to FRS 102 was therefore 21 February 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

	As at 20 February 2015 £'000	As at 21 February 2014 £'000
Reserves as previously stated	3,174	1,956
Adjustments to reserves on transition to FRS 102		
Cash flow hedging reserve	(428)	613
Reserves under FRS 102	<u>2,746</u>	<u>2,569</u>

Under the requirements of FRS 102 section 12, the Association recognises certain derivative instruments as hedges of highly probable forecast transactions. Under previous UK GAAP, these transactions were not recognised on balance sheet. The impact of recognising these transactions is shown in the above reconciliation.

The transition to FRS 102 did not have any impact on surplus after tax in the Consolidated Income and Expenditure account.

**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

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