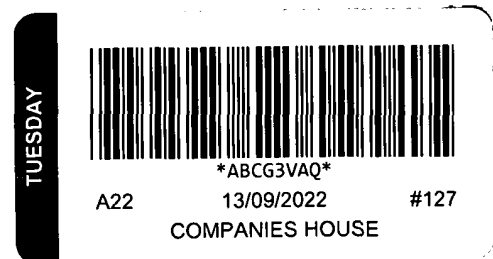


**THE UNITED KINGDOM FREIGHT DEMURRAGE
AND DEFENCE ASSOCIATION LIMITED**

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
20 FEBRUARY 2022**



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

I. Caroussis

B. C. Goulandris

Chairman since June 2020

G. A. Gratsos

Resigned 18 November 2021

T.S. Huxley

C. R. Kendall

L. Zhang

S. Laskaridi

M. F. Lykiardopulo

I. Al Nadhairi

M. Nomikos

S. Palios

Resigned 16 September 2021

P. Pappas

M. G. Pateras

T. A. Stafilopatis

Y. T. Triphyllis

M. R. Wade

G. D. Weston

B. Maclehose

G. Goumas

D.J. Evans

Company Secretary

K.P. Halpenny

Auditors

BDO LLP

55 Baker Street

London W1U 7EU

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

STRATEGIC REPORT

The Directors present their Group Strategic Report for the year ended 20 February 2022.

PRINCIPAL ACTIVITIES

The United Kingdom Freight Demurrage and Defence Association Limited ("the Association") carries on the business of mutual insurance of its Members against legal costs and expenses relating to the operation of ships entered with the Association as defined in the Rules of the Association.

Under a revised agreement dated 10 December 2021, the Association reinsures 90 per cent of its risks to The United Kingdom Defence Insurance Association (Isle of Man) Limited ("UKDIA").

The number of ships entered in the Association at the year-end on 20 February 2022 was 4,127 (3,259 owned and 868 chartered), compared with 3,766 (3,061 owned and 705 chartered) on 20 February 2021. In terms of tonnage, the Association insured 230.7 million tonnes at 20 February 2022 compared to 210.9 million tonnes at 20 February 2021.

FINANCIAL REVIEW

As shown in the Association's Consolidated Income and Expenditure Account on page 16, the year ended with a loss on the technical account of £0.6 million (2021: profit £1.7 million). After investment income, exchange gains/losses and taxation, there was an overall profit for the year of £0.08 million (2021: loss of £0.06 million). The profit for the year was mainly caused by reduced premium levels, offset by an exchange gain for the year whereas the prior year saw a considerable exchange loss.

The combined loss ratio for the year stands at 106% (2021: 87%) excluding the impact of foreign currency on the Association's results.

During the year under review the Association has seen a reduction in premium levels driven mainly by a strengthening in Sterling relative to US Dollars early in the year. Since a large proportion of the Association's business is written in US Dollars, the value of Sterling, relative to US Dollars, has an impact on the Association's results and represents a risk for the Association should Sterling strengthen. To manage this risk the Association hedges its US Dollar premium income through the use of forward currency contracts as further detailed in notes 4 and 13 of the financial statements. This resulted in an other comprehensive loss of £1.36 million (2021: income of £2.22 million) as a result of a strengthening in Sterling which impacted the Association's open derivative contracts that hedge future premium as represented by the movement in the Association's hedging reserve.

The profit for the year led to an increase in the Association's accumulated Income and expenditure account reserves (shown on the Balance Sheet of the Association, set out on page 17) from a surplus of £4.73 million at 20 February 2021 to a surplus of £4.81 million at 20 February 2022. In terms of cash flow the Association's short-term deposits and cash and cash equivalents are sufficient to cover its net claims reserves.

The Association's gross claims reserves at 20 February 2022 were £28.64 million (2021: £27.76 million), an overall increase of £0.88 million in the year which was mostly offset by an increase in the Association's reinsurance claims reserves.

During the year, creditors increased by £3.21 million which is mainly as a result of an advance received from the Association's quota share reinsurer in respect of the agreed discount under the reinsurance contract.

The reserves at 20 February 2022, 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 UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

STRATEGIC REPORT (Continued)

The Directors consider the metrics discussed above the key performance indicators of the Association given that these indicators drive the financial wellbeing of the Association.

The Association's approach to financial risk management and a review of the principal risks and uncertainties is disclosed in note 4 of the financial statements, which includes the financial risks on climate change. The principal risks are considered to be currency risk, insurance risk and credit risk of reinsurance arrangements, the mitigation of which is further discussed in note 4. In addition to the risks discussed in note 4 the Board of the Association has identified Cyber risk and failure of IT system security as additional key risks that the Association faces. These risks, and their respective controls, are monitored by the Association's Board through review of the Association's business risk log.

Likely future developments that may affect the Association are further discussed in the Report of the Directors on page 5.

COMPANIES ACT SECTION 172(1)

Section 172(1) of the Companies Act 2006 provides that a Director of a Company must act in a way that is considered to be in good faith, would most likely promote the success of the Association and benefit the Members as a whole, and in doing so have regard to various other stakeholder interests, including the Managers, regulators, brokers and reinsurers.

As a mutual insurer, the Association exists for the benefit of its Members, who are also the insureds of the Association. The key factors under section 172(1) are further considered below:

1. The likely consequences of any long term decision.

Annually, the Directors assess the capital levels within the Association in combination with its quota share reinsurer. If the Directors consider there to be excess levels capital within the Association, with reference to its risk appetite, the Directors may choose to distribute funds back to its Members, as was done in June 2021.

2. The interests of the Association's employees

The full executive function of the Association is outsourced to the Thomas Miller group of companies. As such the Association has no employees.

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

In terms of the wider community impacted by the Association, as a mutual insurer, the Association exists for the benefit of its Members, who are also insureds of the Association. To this end the Association's Board aims to provide a high quality service at a competitive price. The Association targets a 100% combined loss ratio and has, in recent years, distributed excess funds back to Members by way of Continuity Credits.

The Association outsources management of the day-to-day operations to the Thomas Miller group of companies. In this regard, the Board has established a Management Fee Committee that considers the Association's relationship with Thomas Miller. The Management Fee Committee ensures that any business conducted with Thomas Miller is done so on appropriate terms.

The Association has strong relationships with its brokers and reinsurers and through its Managers the Association maintains contact and high level engagement with the management of its key brokers and reinsurers. The Board receive regular updates on the Association's key broker and reinsurer relationships.

4. The impact of the Association's operations on the community and the environment.

As a service orientated organisation, the Association's does not consider to have a material impact on the environment. The Board has established a policy on climate changes which is owned by the Association's Risk Officer that considers the risk of climate change associated with the Association. The Association considers the best interests of its Members as priority. This includes returning excess funds to its Members, but also supporting cases that will have a benefit to the wider shipping community and acting as a sounding board for industry issues through various topical conferences and seminars conducted throughout the year.

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

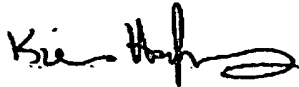
STRATEGIC REPORT (Continued)

5. The desirability of the Association maintaining a reputation for high standards of business conduct.
The Board has in place a conduct risk policy that applies to both the Board and the Managers and ensures that the Association does the right things for its Members whilst keeping them, and the integrity of the markets in which they operate at the heart of everything that the Association does.

6. The need to act fairly between Members of the Association.
The conduct risk policy as referred to above, ensures that Members are treated fairly. In addition the Board has established a conflicts of interest policy which ensures that any conflict of interest around Member issues are appropriately disclosed and dealt with at a Board level.

The Directors therefore considers that the requirements of Section 172(1) are appropriately addressed within the Association's policies and procedures.

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



K. P. Halpenny
Secretary

23 June 2022

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 Group for the year ended 20 February 2022.

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 2022 and will be eligible for re-election.

MEETINGS OF DIRECTORS

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

A substantial portion of each meeting involved the consideration of Members' cases in which the Association's support was requested for court or arbitration proceedings, the Directors considering 24 major cases during the year. The Managers also considered a substantial number of requests for support in proceedings under the authority delegated to them by the Directors and reports on those cases were presented to the Board at each meeting. Of all the requests for support formally considered by the Board, in excess of 90% received a significant measure of support from the Association, illustrating the importance attached by both Board and Managers to the Association being supportive of its Members whenever the circumstances render that possible.

The work of the Association remains substantial with approximately 2,768 case files open as at 20 February 2022. The Managers continue to advise and support Members who are involved with disputes and are frequently able to help them reach satisfactory terms of settlement without proceedings.

FUTURE DEVELOPMENTS

The Board will maintain the current strategy for the business in future years and anticipates to retain market share whilst adding to its Membership subject to its underwriting discipline.

EMERGING RISKS – UKRAINIAN WAR

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

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

IMPACT OF COVID-19 ON THE ASSOCIATION

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

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

DIRECTORS' AND OFFICERS' LIABILITY

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

AUDITOR

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

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

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

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

DIRECTORS' REPORT DISCLOSURES

The Association's financial instruments comprise its financial investments, cash, and various items arising directly from operations such as insurance and other debtors, technical provisions and creditors. The main risks arising from these financial instruments are credit risk, market risk, and insurance risk. The Association's approach to management of these risks is disclosed in note 4 of the financial statements.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' RESPONSIBILITIES STATEMENT

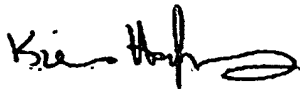
The directors are responsible for preparing the Strategic Report and Report of the Directors and the financial statements in accordance with applicable law and regulations.

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

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

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

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



K. P. Halpenny
Secretary

23 June 2022

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 20 February 2022 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The United Kingdom Freight Demurrage and Defence Association Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 20 February 2022 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated and Company Statement of Changes in Reserves, the Consolidated Statement of Cash Flows and notes to the Consolidated financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom and Republic of Ireland* and Financial Reporting Standard 103: *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

We were appointed by the members on 16 June 2016 to audit the financial statements for the year ending 20 February 2017 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 6 years, covering the years ended 20 February 2017 to 20 February 2022. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT (Continued)

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the Group and Parent Company's current plans and budget forecasts, challenging growth assertions and checking that movements were in line with justifiable assumptions and movements. This was done through review of historic budgets against actual performance and knowledge of the Group and industry;
- Checked the basis of solvency projections for the next 12 months based on accounting principles, considering an appropriate mechanism for calculating solvency had been applied and there is sufficiency of assets to meet liabilities; and
- Challenge and discussion around the latest Own risk and Solvency Assessment(ORSA) provided by the Group. In addition, we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged the Directors as to the future assumptions over premium and claims performance embedded within the model, through discussion and comparing the assumptions to our knowledge of relevant factors affecting the industry and economy. We have also checked that the modelling used for solvency is in line with industry standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	<i>100% (2021: 100%) of Group profit before tax</i> <i>100% (2021: 100%) of Group revenue</i> <i>100% (2021: 100%) of Group total assets</i>		
Key audit matters	Valuation of technical provisions and reinsurers share of technical provisions	2022 x	2021 x
Materiality	<i>Group financial statements as a whole</i> £338k (2021: 370k) based on 1.95% (2021: 1.92%) of Revenue		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT (Continued)

We deemed that the Group consisted of two components, being the Parent Company and the Subsidiary. The Parent Company was subject to a full scope audit, the other component was not significant to the Group but we carried out specific audit procedures over Revenue, Claims paid, Investments and Cash at Bank.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of technical provisions and reinsurer's share of technical provisions See note 18 and accounting policy in note 2f	<p>The valuation of technical provisions, both gross and net of reinsurance, is a key area of estimation within the financial statements. There is a risk that inappropriate assumptions and judgements are made when determining the valuation of technical provisions.</p> <p>1. Case estimates rely on:</p> <ul style="list-style-type: none"> The expertise of the claims handlers and their experience of assessing claims in different jurisdictions; The correct and timely entry of claims information onto the claims system before the year end; Adjustments being made to significant year end estimates and payments being absorbed by the Association's assessment of claims IBNR. <p>2. IBNR modelling is reliant on:</p> <ul style="list-style-type: none"> Relevant claims data being input correctly into actuarial models; and The application of appropriate actuarial 	<p>We have performed the following:</p> <p>Valuation of Case Estimates:</p> <ul style="list-style-type: none"> We selected sample of claims estimates and agreed these back to supporting documentation such as legal correspondence, to assess whether case estimates are valued appropriately. Reviewed the outturn in the current year vs prior year's estimate of current year claims a to ascertain whether previous estimates were reasonable. This was done by comparing the incurred, paid and outstanding position on each of the last 11 years of account and how these positions changed from the prior year to the current year. <p>Cut-off of Case Reserves:</p> <ul style="list-style-type: none"> Agreed claim adjustments above performance materiality and payments before and after the year end to supporting documentation and bank statements, to assess

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

	<p>techniques, judgements and assumptions.</p> <p>Claims handlers only provide case estimates to the next stage of authorisation, increasing the risk that case reserves may be understated. As such a greater reliance is placed on the Group's internal actuaries to reserve adequately by entering sufficient IBNR to compensate for any risk of under reserving within case estimates.</p> <p>3. The Association has reduced its insurance risk through quota share and excess of loss reinsurance arrangements. Reinsurer's share of technical provisions is reliant on the assumptions and judgements applied when establishing gross technical provisions.</p> <p>For these reasons we considered the valuation of technical provisions to be a key audit matter.</p>	<p>whether these adjustments and payments were accounted for in the correct period.</p> <p>Valuation of IBNR:</p> <ul style="list-style-type: none"> • Reconciled the key actuarial inputs(historical claims paid by underwriting year) used in actuarial models to underwriting and accounting records. • With the use of our internal actuarial experts we assessed the appropriateness of the methodology, significant judgements and assumptions applied by the Association's actuarial team in the calculation of technical provisions. • Reviewed the outturn of prior years' claims IBNR against previous estimates, to assess valuation of IBNR held against the subsequent claims development. <p>Valuation of Reinsurers' Share of Technical Provisions:</p> <ul style="list-style-type: none"> • Recomputed total recoveries on the Association's quota share reinsurance arrangements through application of the ceding percentage to the technical provisions subject to quota share based on the agreement; and • Assessed the accuracy and completeness of the excess of loss reinsurance calculations through identification of claims eligible for recovery and recalculating the reinsurers share in line with the excess of loss reinsurance programme. <p>Key observations: Based on our audit procedures performed we consider the judgements and assumptions made</p>
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THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

		in the valuation of technical provisions and reinsurer's share of technical provisions to be appropriate
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Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Materiality	338	370	330	370
Basis for determining materiality	1.95% of Revenue	1.92% of Revenue	1.95% of Revenue	1.92% of Revenue
Rationale for the benchmark applied	This has been set with reference to gross calls & premiums (Revenue) of the Group and Parent Company which reflects the overall scale of the business. Calls and premiums are a key measure that is used to consider the performance of the Group and Parent Company.			
Performance materiality	253.5	277.5	247.5	277.5
Basis for determining performance materiality	75% of financial statement materiality based on history of errors, management's attitude towards proposed adjustments and accounts subject to estimation.			

The Group and Parent Company has in place a significant amount of quota share reinsurance. This arrangement has the effect of transferring insurance premium and claims technical provisions to reinsurers. Due to the extent of these arrangements it was felt appropriate to set a financial statements materiality to determine the extent of audit procedures to be applied over gross written premiums and gross claims before these reinsurance arrangements. A specific level of materiality has been set for transactions and balances not affected by quota share reinsurance.

Specific materiality

We also determined that for line items not affected by the significant amount of quota share reinsurance agreement, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result a specific materiality of £90,000 (2021: £65,000) has been set. We determined materiality for these items based on 2% of Net Assets (2021: Net Assets). We further applied a performance materiality level of £67,500 (2021: £48,750) being 75% (2021: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT (Continued)

Component materiality

As all work over the specific accounts within the non-significant component was done in conjunction with the audit of the Parent Company by the Group audit team a separate materiality for the component was not set and they were tested in line with Group materiality of £338k (2021: 370k) .

Reporting threshold

We agreed with the Board of Directors that we would report to them all individual audit differences in excess of £16,500 (2021:£18,550). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Consolidated Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT (Continued)

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
Matters on which we are required to report by exception	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none"> 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT (Continued)


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

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

DocuSigned by:

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Thomas Reed (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

13 July 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Year ended 20 February 2022

	Note	2022 £'000	2021 £'000
Technical Account			
Gross premiums written	5	17,268	19,270
Outward reinsurance premiums	5	(7,219)	(7,241)
Net movement in unearned premium	19	(47)	-
Net premiums written and earned		10,002	12,029
Claims paid		(5,686)	(5,738)
Gross amount		(12,738)	(13,644)
Reinsurers' share		7,052	7,906
Change in provision for claims		7	94
Gross amount		(862)	1,173
Reinsurers' share		869	(1,079)
Claims incurred, net of reinsurance	18	(5,679)	(5,644)
Net operating expenses	7	(4,965)	(4,695)
Balance on the technical account		(642)	1,690
Non-Technical Account			
Balance on the technical account		(642)	1,690
Investment income	10	6	11
Exchange gains / (losses)		716	(1,764)
Surplus / (loss) on ordinary activities before tax		80	(63)
Tax on activities	17	(1)	-
Surplus / (loss) on activities after tax and transferred to reserves		79	(63)

All activities represent continuing activities.

The notes on pages 22 to 42 form an integral part of these Financial Statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 20 February 2022

	2022 £'000	2021 £'000
Surplus / (loss) on activities after tax	79	(63)
Other comprehensive income		
Amounts recycled into surplus	(676)	807
Fair value gain / (loss)	<u>(680)</u>	<u>1,471</u>
	(1,356)	2,278
Total comprehensive income for the year	<u><u>(1,277)</u></u>	<u><u>2,215</u></u>

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

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET

As at 20 February 2022

		Consolidated		Parent company	
		2022	2021	2022	2021
	Note	£'000	£'000	£'000	£'000
<i>Assets</i>					
Investments					
Shares in subsidiary undertakings	21	-	-	3,160	3,160
Other financial investments	12	7,798	4,508	4,611	4,508
Derivative financial instruments	13	734	2,109	734	2,109
Reinsurers' share of technical provisions					
Reinsurance share of claims reserves	18	25,971	25,084	25,971	25,084
Provision for unearned reinsurance premium	19	153	-	153	-
Deferred acquisition costs		30	-	30	-
Debtors	14	470	385	463	364
Cash and cash equivalents	15	4,107	4,025	3,968	901
Total assets		39,263	36,111	39,090	36,126
<i>Reserves</i>					
Income and expenditure account		4,806	4,727	4,797	4,737
Hedging reserve	13	420	1,776	420	1,776
Total reserves		5,226	6,503	5,217	6,513
<i>Liabilities</i>					
Technical provisions					
Claims reserves	18	28,640	27,759	28,498	27,759
Unearned premium provision	19	200	-	200	-
Derivative financial instruments	13	141	-	141	-
Creditors	16	5,056	1,849	5,034	1,854
Total liabilities		34,037	29,608	33,873	29,613
Total liabilities and reserves		39,263	36,111	39,090	36,126

During the current year, the operations of the parent company resulted in a surplus for the year of £0.06 million (2021: loss of £0.06 million)

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

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET (Continued)

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 23 June 2022. They were signed on its behalf by:

Directors

B. Goulandris



C. R. Kendall



Managers

D. J. Evans



The notes on pages 22 to 42 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 2022

	£'000	Attributable to members £'000	£'000
	Income and expenditure account	Hedging reserve	Total
Balance at 20 February 2020	4,790	(502)	4,288
Loss for the year	(63)	-	(63)
Other comprehensive income for the year	-	2,278	2,278
Total comprehensive income for the year	(63)	2,278	2,215
Balance at 20 February 2021	4,727	1,776	6,503
Surplus for the year	79	-	79
Other comprehensive income for the year	-	(1,356)	(1,356)
Total comprehensive income for the year	79	(1,356)	(1,277)
Balance at 20 February 2022	4,806	420	5,226

PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

Year ended 20 February 2022

	£'000	Attributable to members £'000	£'000
	Income and expenditure account	Hedging reserve	Total
Balance at 20 February 2020	4,793	(502)	4,291
Loss for the year	(56)	-	(56)
Other comprehensive income for the year	-	2,278	2,278
Total comprehensive income for the year	(56)	2,278	2,222
Balance at 20 February 2021	4,737	1,776	6,513
Surplus for the year	60	-	60
Other comprehensive income for the year	-	(1,356)	(1,356)
Total comprehensive income for the year	60	(1,356)	(1,296)
Balance at 20 February 2022	4,797	420	5,217

The notes on pages 22 to 42 form an integral part of these Financial Statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 20 February 2022

	2022 £'000	2021 £'000
Operating activities		
Calls and premiums received	17,868	16,218
Reinsurance premium paid	(4,001)	(7,029)
Claims paid	(12,520)	(13,672)
Reinsurance recoveries received	7,052	7,906
Acquisition costs	(806)	(886)
Operating expenses paid	(4,182)	(3,592)
Interest and dividends received	6	11
Taxation paid	(6)	(13)
Net cash used in operating activities	<u>3,411</u>	<u>(1,057)</u>
Investing activities		
Purchase of investments	(15,541)	(2,440)
Sale of investments	12,236	3,346
Net cash provided in investing activities	<u>(3,305)</u>	<u>906</u>
Net (decrease) / increase in cash and cash equivalents	<u>106</u>	<u>(151)</u>
Cash and cash equivalents at the beginning of the year	4,025	4,045
Effect of exchange rate fluctuations on cash and cash equivalents	(24)	131
Cash and cash equivalents at the end of the year	<u><u>4,107</u></u>	<u><u>4,025</u></u>

The notes on pages 22 to 42 form an integral part of these Financial Statements.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Constitution and General Information

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

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

The Association's principal activities are further described in the strategic report

2 Accounting Policies

(a) Accounting disclosures

The financial statements are prepared on an annual basis under the historical cost convention as modified to include certain items at fair value, and in accordance with Financial Reporting Standard ("FRS") 102 – "Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" and FRS 103 – "Insurance contracts" issued by the Financial Reporting Council.

These financial statements which consolidate the financial statements of the Association and its subsidiary undertakings have been prepared under the Companies Act 2006. The Association and its subsidiary undertakings have applied uniform accounting policies and on consolidation all intra-group transactions, profits, and losses have been eliminated. In the parent company Balance Sheet, shares in subsidiary undertakings are shown at cost less any provision for impairment.

The functional currency of the Association is considered to be pounds sterling because that is the currency of the primary economic environment in which the Association operates. This has been selected on the basis that materially all of the Association's claims and expenses are paid in pounds sterling, and the Association's main reinsurance contract with UKDIA is denominated in pounds sterling.

The Association has taken exemption from presenting a parent profit and loss account under section 408 of Companies Act 2006. The Association has taken exemption from presenting a parent Statement of Cash Flows under section 1.12(b) of FRS 102.

The Financial Statements have been prepared on a going concern basis. The Directors consider it appropriate to adopt the going concern basis of accounting in the preparation of these Financial Statements and are not aware of any material uncertainties to the Association's ability to continue to do so for at least 12 months from the date of authorisation of these Financial Statements.

(b) Foreign currencies

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

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

All exchange gains/losses other than on forward exchange contracts that are designated and qualify as hedges (see 2(g)), whether realised or unrealised have been included in the Consolidated Income and Expenditure Account for the year.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Accounting Policies (Continued)

(c) Gross premiums written

Calls and premiums are presented net of return premiums and continuity credits and are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any adjustments in respect of prior accounting periods. Continuity credits represent a reduced premium amount for longstanding Members and are recognised as part of the related premium amount.

(d) Outward reinsurance premiums

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

The agreed discount is recognised in the Consolidated Income and Expenditure Account when corresponding reinsurance premiums are recognised.

(e) Unearned premiums

Premiums written during the financial year are earned as revenue on a daily pro-rata basis over the period of cover provided, in line with the incidence of risk. Amounts relating to periods after the year end are treated as unearned and included within liabilities on the statement of financial position

(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)

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

The Association's gross and reinsurance Technical Provisions include a provision for claims Incurred But Not Reported "(IBNR)".

(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 the Balance Sheet at fair value through profit and loss. Fair value is calculated using the bid price at the close of business on the balance sheet date.

Those purchased in foreign currencies are translated into sterling on the date of purchase. The fair value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date.

(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. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised directly in the Consolidated Income and Expenditure Account.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in Other Comprehensive Income and is recognised when the forecast transaction is ultimately recognised in the Consolidated Income and Expenditure Account.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in Other Comprehensive Income is immediately transferred to the Consolidated Income and Expenditure Account.

(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.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Accounting Policies (Continued)

(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 an ongoing and annual review.

(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 given the Association mono-line nature.

(l) Taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 102 section 29. Currently no timing differences exist that results in any deferred tax assets or liabilities.

3 Critical accounting estimates and judgements

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. The outcome on claims can significantly deviate from both initial estimates and the estimates as disclosed in the financial statements. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. For further detail refer to note 2(e) and note 18.

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management

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

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

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

Market risk

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

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

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

As at 20 February 2022	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Short term deposit funds	2,200	287	-	2,487
Foreign exchange security deposit	3,861	-	-	3,861
Fixed income securities	1,450	-	-	1,450
Net derivative financial instruments	28,681	(28,088)	-	593
Reinsurers' share of technical provisions	17,689	4,297	3,985	25,971
Unearned reinsurance premium	153	-	-	153
Debtors	153	306	11	470
Deferred acquisition costs	30	-	-	30
Cash and cash equivalents	2,907	560	640	4,107
Technical provisions	(19,514)	(4,731)	(4,395)	(28,640)
Unearned premium	(200)	-	-	(200)
Creditors	(4,717)	(66)	(273)	(5,056)
	<u>32,693</u>	<u>(27,435)</u>	<u>(32)</u>	<u>5,226</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

As at 20 February 2021	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Short term deposit funds	651	2	-	653
Foreign exchange security deposit	3,855	-	-	3,855
Derivative financial instruments	27,343	(25,234)	-	2,109
Reinsurers' share of technical provisions	17,856	4,130	3,098	25,084
Debtors	139	206	40	385
Cash and cash equivalents	3,619	384	22	4,025
Technical provisions	(19,767)	(4,567)	(3,425)	(27,759)
Creditors	(1,497)	(170)	(182)	(1,849)
	<u>32,199</u>	<u>(25,249)</u>	<u>(447)</u>	<u>6,503</u>

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

	Strengthening		Weakening	
	Effect on OCI	Effect on surplus after tax	Effect on OCI	Effect on surplus after tax
As at 20 February 2022				
Dollar	(1,305)	297	1,511	(363)
Euro	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>2</u>
As at 20 February 2021				
Dollar	(996)	222	1,534	(221)
Euro	<u>-</u>	<u>(22)</u>	<u>-</u>	<u>22</u>

Credit risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

The credit rating bands are provided by independent ratings agencies:

As at 20 February 2022	AAA	AA - A	BBB	Not rated / not readily available	Total
	£'000	£'000	£'000	£'000	£'000
Short term deposit funds	2,487	-	-	-	2,487
Foreign exchange security deposit	-	3,861	-	-	3,861
Fixed income securities	-	1,450	-	-	1,450
Derivative financial instruments	-	734	-	-	734
Reinsurers' share of technical provisions	-	1,947	-	24,177	26,124
Deferred acquisition costs	-	-	-	30	30
Debtors	-	-	-	470	470
Cash and cash equivalents	-	4,107	-	-	4,107
Total assets subject to credit risk	2,487	12,099	-	24,677	39,263

As at 20 February 2021	AAA	AA - A	BBB	Not rated / not readily available	Total
	£'000	£'000	£'000	£'000	£'000
Short term deposit funds	653	-	-	-	653
Foreign exchange security deposit	-	1,310	2,545	-	3,855
Derivative financial instruments	-	1,341	768	-	2,109
Reinsurers' share of technical provisions	-	1,011	-	24,073	25,084
Debtors	-	-	-	385	385
Cash and cash equivalents	-	4,025	-	-	4,025
Total assets subject to credit risk	653	7,687	3,313	24,458	36,111

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

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 UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

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

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

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

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

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

	2022 £'000	2021 £'000
Increase in loss ratio by 5 percentage points		
Gross	(863)	(964)
Net	<u>(86)</u>	<u>(96)</u>

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

Liquidity risk

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

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

**THE UNITED KINGDOM FREIGHT DEMURRAGE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

As at 20 February 2022	Within 1 year	1 to 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000
Assets and liabilities				
Short term deposit funds	2,487	-	-	2,487
Foreign exchange security deposit	3,861	-	-	3,861
Fixed income securities	1,450	-	-	1,450
Derivative financial instruments	667	(74)	-	593
Reinsurers' share of technical provisions	7,483	14,978	3,663	26,124
Deferred acquisition costs	30	-	-	30
Debtors	470	-	-	470
Cash and cash equivalents	4,107	-	-	4,107
Technical provisions	(8,284)	(16,517)	(4,039)	(28,840)
Creditors	(5,056)	-	-	(5,056)
Total	7,215	(1,613)	(376)	5,226

As at 20 February 2021	Within 1 year	1 to 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000
Assets and liabilities				
Short term deposit funds	653	-	-	653
Foreign exchange security deposit	3,855	-	-	3,855
Derivative financial instruments	886	1,223	-	2,109
Reinsurers' share of technical provisions	7,019	14,524	3,541	25,084
Debtors	385	-	-	385
Cash and cash equivalents	4,025	-	-	4,025
Technical provisions	(7,769)	(16,072)	(3,918)	(27,759)
Creditors	(1,849)	-	-	(1,849)
Total	7,205	(325)	(377)	6,503

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)

Financial Risks from Climate Change

In April 2019 the PRA published Supervisory Statement 3/19, "Enhancing banks' and insurers' approaches to managing the financial risks from climate change", which sets out their expectations as to how firms will manage the financial risks relating to climate change. To this end, the Association has put in place a policy and plan for the exposure, identification and management of risk relating to climate change. As a service organisation, the Association considers that there is no direct risk for the Association to climate change given that the Association insures the legal costs that its Membership is exposed to rather than a direct exposure to climate change and related regulations, however as part of the Association's Own Risk and Solvency Assessment ("ORSA") process under Solvency II the risks around climate change have been included in the Association's scenario analysis. In its scenario analysis, the Association has considered the impact of climate change regulation on its Membership and how this might impact the Association both directly and indirectly, in addition to the impact that climate change may have on the Association's invested assets. The Association continues to monitor its claims for any underlying trends relating to the risks surrounding climate change.

Capital Management

The Association maintains capital, comprising of surplus and reserves, consistent with the Association's risk appetite and the regulatory requirements. Under the Solvency 2 regime the Association has been approved by its regulator a capital benefit associated with the Association's ability to make a contingency call to its Members.

The Association continues to be regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Under the Solvency 2 regime the Association is obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 per cent confidence level of solvency. Throughout the period the Association complied with all regulatory capital requirements. For the current year end, the Association maintained 252% capital coverage of its Solvency Capital Requirement on a Group basis. There have been no changes in the Association's capital management during the current year.

Limitation of the sensitivity analyses

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

Fair value estimations

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

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

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

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

**THE UNITED KINGDOM FREIGHT DEMURRAGE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Financial Risk Management (Continued)

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

As at 20 February 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Short term deposit funds	2,487	-	-	2,487
Foreign exchange security deposit	3,861	-	-	3,861
Fixed income securities	1,450	-	-	1,450
Derivative financial instruments	-	593	-	593
Cash and cash equivalents	4,107	-	-	4,107
Total	<u>11,905</u>	<u>593</u>	<u>-</u>	<u>12,498</u>

As at 20 February 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Short term deposit funds	653	-	-	653
Foreign exchange security deposit	3,855	-	-	3,855
Derivative financial instruments	-	2,109	-	2,109
Cash and cash equivalents	4,025	-	-	4,025
Total	<u>8,533</u>	<u>2,109</u>	<u>-</u>	<u>10,642</u>

Financial instruments

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

	2022 £'000	2021 £'000
Financial assets measured at fair value through profit or loss	<u>7,971</u>	<u>4,840</u>
Financial assets measured at amortised cost	<u>4,577</u>	<u>4,410</u>
Net financial assets measured at fair value through other comprehensive income	<u>420</u>	<u>1,776</u>
Financial liabilities measured at amortised cost	<u>(5,056)</u>	<u>(1,849)</u>

**THE UNITED KINGDOM FREIGHT DEMURRAGE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

5	Gross Premiums Written and Outward Reinsurance Premiums	2022	2021
		£'000	£'000
	Gross Premiums written	<u>17,268</u>	<u>19,270</u>
	Excess loss premium	(659)	(712)
	90% quota share premium	(13,993)	(15,905)
	Agreed discount on 90% quota share premium	<u>7,433</u>	<u>9,376</u>
		<u>(7,219)</u>	<u>(7,241)</u>

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

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

	2022	2021
	£'000	£'000
Marshall Islands	4,394	5,101
Liberia	2,994	3,434
Singapore	1,470	1,668
China	942	1,182
Panama	722	781
Other	<u>6,746</u>	<u>7,104</u>
	<u>17,268</u>	<u>19,270</u>

The 90% quota share reinsurance premium is calculated after the impact of any excess of loss reinsurance and is subject to a discount which is agreed on an annual basis with the reinsurance quota share provider, UKDIA.

6	Gross Claims Paid	2022	2021
		£'000	£'000
	Legal costs and expenses	(7,835)	(8,484)
	Claims handling costs and management fee	<u>(4,903)</u>	<u>(4,860)</u>
		<u>(12,738)</u>	<u>(13,644)</u>

**THE UNITED KINGDOM FREIGHT DEMURRAGE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 Net Operating Expenses	Note	2022 £'000	2021 £'000
General Management		(3,350)	(2,980)
Directors' remuneration	9	(271)	(219)
Auditor's remuneration:			
Audit fees in relation to the audit of the Association's annual accounts		(153)	(107)
Non-audit fees in relation to taxation services		(3)	(3)
Brokerage		(806)	(886)
Other expenses		(596)	(720)
		<u>(5,179)</u>	<u>(4,915)</u>
Net operating expenses allocated to claims handling		214	218
		<u>(4,965)</u>	<u>(4,697)</u>

8 Management Fee

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

The management fee is apportioned between the different management functions and consists of acquisition costs, which include the cost of underwriting and credit control; claims handling costs; and other costs which include accounting, regulatory compliance, and general management. The fee is allocated to these functions on the basis of the underlying cost elements to the management fee which are included in amounts in notes 6 and 7.

9 Directors' Fees	2022 £'000	2021 £'000
Aggregate emoluments	<u>(271)</u>	<u>(219)</u>

Pension contributions are not made in respect of any of the Directors. The Directors' fees for the highest paid director amounted to £22,500 (2021: £27,000).

10 Investment Income	2022 £'000	2021 £'000
Bank deposits	6	10
Return on short term deposit funds	-	1
	<u>6</u>	<u>11</u>

11 Rates of Exchange

The year end rates of exchange equivalent to £1 were:	2022	2021
US dollar	1.3583	1.4013
Euro	1.1977	1.1146

**THE UNITED KINGDOM FREIGHT DEMURRAGE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Investments

Consolidated	Fair Value		Cost	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Fixed income securities	1,450	-	1,450	-
Short term deposit funds	2,487	653	2,487	653
Foreign exchange security deposit	3,861	3,855	3,861	3,855
	<u>7,798</u>	<u>4,508</u>	<u>7,798</u>	<u>4,508</u>

	2022	2021
Percentage of cash and interest bearing securities repayable: within one year	<u>100%</u>	<u>100%</u>

Parent Company	Fair Value		Cost	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Short term deposit funds	750	653	750	653
Foreign exchange security deposit	3,861	3,855	3,861	3,855
	<u>4,611</u>	<u>4,508</u>	<u>4,611</u>	<u>4,508</u>

	2022	2021
Percentage of cash and interest bearing securities repayable: within one year	<u>100%</u>	<u>100%</u>

The foreign exchange security deposit is charged to The Royal Bank of Scotland plc and the Bank of New York Mellon, London branch, as collateral in respect of the Association's forward currency contracts.

**THE UNITED KINGDOM FREIGHT DEMURRAGE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Derivative financial instruments

	2022			2021		
	Contract notional amount £'000	Fair value asset £'000	Fair value liability £'000	Contract notional amount £'000	Fair value asset £'000	Fair value liability £'000
Non-hedge contracts	6,442	174	-	4,537	332	-
Cash flow hedges	22,239	560	(141)	22,805	1,776	-
	<u>28,681</u>	<u>734</u>	<u>(141)</u>	<u>27,342</u>	<u>2,108</u>	<u>-</u>

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 2022 will be released to the Income and Expenditure Account over the next three years to match the receipt of future income. All amounts reported as other comprehensive income in the Consolidated Statement of Comprehensive income relate to cash flow hedges.

The hedging reserve on the Balance Sheet is represented by a net profit of £0.42 million (2021: profit of £1.78 million) on cash flow hedges as per the table above. There was no ineffective portion attributable to these hedges.

Changes in the fair value of derivatives that do not qualify for hedge accounting amounted losses of £0.16 million (2021: gains of £0.33 million) and is recognised in Consolidated Income and Expenditure Account within exchange gains and losses.

**THE UNITED KINGDOM FREIGHT DEMURRAGE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Debtors

	Consolidated		Parent Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Arising out of insurance operations				
Members' contributions	196	86	194	86
Claims deductibles recoverable	198	176	187	176
	<u>394</u>	<u>262</u>	<u>381</u>	<u>262</u>
Other debtors				
Other debtors	76	123	82	102
	<u>76</u>	<u>123</u>	<u>82</u>	<u>102</u>
Total debtors	<u><u>470</u></u>	<u><u>385</u></u>	<u><u>463</u></u>	<u><u>364</u></u>

Debtors arising out of direct insurance operations include a provision for impairment of £160,000 (2021: £172,000) resulting in a decrease of £12,000 in the current year (2021: decrease of £20,000). The provision for impairment is based on the likelihood of recovery of funds from Members.

Debtors arising out of direct insurance operations include an amount of £196,000 (2021: £211,000) that are past due, but not impaired.

15 Cash and cash equivalents

	Consolidated		Parent company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Cash at bank and in hand	4,107	4,025	3,968	901
Total cash and cash equivalents	<u><u>4,107</u></u>	<u><u>4,025</u></u>	<u><u>3,968</u></u>	<u><u>901</u></u>

**THE UNITED KINGDOM FREIGHT DEMURRAGE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 Creditors

	Consolidated		Parent company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Arising out of insurance operations				
Members' contributions	-	-	-	-
Claims creditors	274	231	244	232
Due to subsidiary	-	-	187	68
Due to quota share reinsurer	4,416	1,198	4,416	1,198
	<u>4,690</u>	<u>1,429</u>	<u>4,847</u>	<u>1,498</u>
Other creditors				
Corporation tax payable	1	-	(4)	-
PAYE and social security	10	5	10	5
Other creditors	31	206	31	206
Accruals and deferred income	324	209	150	146
	<u>366</u>	<u>420</u>	<u>187</u>	<u>356</u>
Total Creditors	<u><u>5,056</u></u>	<u><u>1,849</u></u>	<u><u>5,034</u></u>	<u><u>1,854</u></u>

17 Taxation

Taxation is in respect of United Kingdom and Cyprus corporation tax. In the UK tax is calculated on assessable investment income and gains/losses at current rates of taxation. In Cyprus tax is calculated on the surplus for the year adjusted for non-allowable expenditure.

Analysis of tax charge for the year:

	2022	2021
	£'000	£'000
Corporation tax applicable tax rates	(6)	-
Prior year adjustment	<u>5</u>	<u>-</u>
Total current tax	<u>(1)</u>	<u>-</u>

Reconciliation of tax amount

Surplus / (loss) on activities before tax	<u>80</u>	<u>(63)</u>
Surplus on activities before tax multiplied by standard rate of corporation tax	(14)	(12)
Non-taxable balance on technical account	(130)	(321)
Non-taxable exchange losses	140	329
Tax effect of expenses not allowable for tax purposes	(2)	-
Prior year adjustment	5	-
Tax loss not carried forward	<u>-</u>	<u>4</u>
	<u>(1)</u>	<u>-</u>

The corporation tax rate in the United Kingdom is 19% (2021: 19%) and in Cyprus it is 12.5% (2021: 12.5%).

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 Technical Provisions

	Consolidated		Parent Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Technical provisions				
Gross technical provisions	28,640	27,759	28,498	27,759
Reinsurers' share of gross technical provisions	25,971	25,084	25,971	25,084
Total net technical provisions	2,669	2,675	2,527	2,675
Current	800	749	761	749
Non-Current	1,869	1,926	1,766	1,926

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 2021 policy year.

The movement on net incurred claims for prior policy years saw an improvement of £251,000 (2021: improvement of £336,000). Net technical provisions include a provision for IBNR of £1.5 million (2021: £1.6 million).

Development claim tables

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

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Reporting year	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/19	2019/20	2020/21	2021/22
- At the end of the reporting year	11,250	10,500	10,900	10,500	12,150	11,023	11,513	9,600	11,226	10,638
- One year later	9,150	10,100	13,072	10,115	9,323	9,184	10,735	9,228	9,300	
- Two years later	8,350	10,050	16,707	8,757	8,394	7,948	9,387	8,720		
- Three years later	8,200	9,643	16,591	9,179	7,717	7,264	9,495			
- Four years later	8,135	9,089	16,590	8,860	7,503	7,419				
- Five years later	8,050	8,870	15,923	8,411	7,332					
- Six years later	7,893	8,853	15,397	8,440						
- Seven years later	7,531	8,837	15,562							
- Eight years later	7,497	8,875								
- Nine years later	7,505									
Current estimate of cumulative claims	7,505	8,875	15,562	8,440	7,332	7,419	9,495	8,720	9,300	10,638
Cumulative payments to date	7,150	8,308	14,231	7,758	6,417	6,184	7,796	5,874	4,814	1,805
Gross liability recognised on the balance sheet	355	567	1,331	682	915	1,235	1,699	2,846	4,486	8,833
Total gross liability relating to the last ten policy years										22,949
Other claims liabilities										5,691
Total gross technical provisions included on balance sheet										28,640

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

Reporting year	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/19	2019/20	2020/21	2021/22
- At the end of the reporting year	1,125	1,050	1,090	1,050	1,215	1,091	1,131	960	1,105	1,025
- One year later	915	1,010	1,260	1,012	916	893	1,030	900	930	
- Two years later	835	1,005	1,560	870	825	780	925	846		
- Three years later	820	962	1,518	905	758	715	915			
- Four years later	813	900	1,508	873	735	715				
- Five years later	805	883	1,455	840	723					
- Six years later	785	885	1,415	837						
- Seven years later	750	880	1,414							
- Eight years later	745	878								
- Nine years later	745									
Current estimate of cumulative claims	745	878	1,414	837	723	715	915	846	930	1,025
Cumulative payments to date	715	831	1,298	776	642	618	780	587	481	181
Net liability recognised on balance sheet	30	47	116	61	81	97	135	259	449	844
Total net liability relating to the last ten policy years										2,119
Other claims liabilities										550
Total net technical provisions included on balance sheet										2,669

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 Technical Provisions (Continued)

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

Reporting year	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/19	2019/20	2020/21	2021/22
- At the end of the reporting year	11,250	10,500	10,900	10,500	12,150	11,023	11,513	9,600	11,226	10,472
- One year later	9,150	10,100	13,072	10,115	9,323	9,184	10,735	9,228	9,300	
- Two years later	8,350	10,050	16,707	8,757	8,394	7,948	9,387	8,720		
- Three years later	8,200	9,643	16,591	9,179	7,717	7,264	9,495			
- Four years later	8,135	9,089	16,590	8,860	7,503	7,419				
- Five years later	8,050	8,870	15,923	8,411	7,332					
- Six years later	7,893	8,853	15,397	8,440						
- Seven years later	7,531	8,837	15,562							
- Eight years later	7,497	8,875								
- Nine years later	7,505									
Current estimate of cumulative claims	7,505	8,875	15,562	8,440	7,332	7,419	9,495	8,720	9,300	10,472
Cumulative payments to date	7,150	8,308	14,231	7,758	6,417	6,184	7,796	5,874	4,814	1,781
Gross liability recognised on the balance sheet	355	567	1,331	682	915	1,235	1,699	2,846	4,486	8,691
Total gross liability relating to the last ten policy years										22,807
Other claims liabilities										5,691
Total gross technical provisions included on balance sheet										28,498

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

Reporting year	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/19	2019/20	2020/21	2021/22
- At the end of the reporting year	1,125	1,050	1,090	1,050	1,215	1,091	1,131	960	1,105	859
- One year later	915	1,010	1,260	1,012	916	893	1,030	900	930	
- Two years later	835	1,005	1,560	870	825	780	925	846		
- Three years later	820	962	1,518	905	758	715	915			
- Four years later	813	900	1,508	873	735	715				
- Five years later	805	883	1,455	840	723					
- Six years later	785	885	1,415	837						
- Seven years later	750	880	1,414							
- Eight years later	745	878								
- Nine years later	745									
Current estimate of cumulative claims	745	878	1,414	837	723	715	915	846	930	859
Cumulative payments to date	715	831	1,298	776	642	618	780	587	481	156
Net liability recognised on balance sheet	30	47	116	61	81	97	135	259	449	703
Total net liability relating to the last ten policy years										1,978
Other claims liabilities										548
Total net technical provisions included on balance sheet										2,526

	2022			2021		
	Gross £'000	RI £'000	Net £'000	Gross £'000	RI £'000	Net £'000
Movement in Consolidated technical claims provisions						
Total at the beginning of the year	27,759	25,084	2,675	29,261	26,460	2,802
Claims paid	(12,739)	(7,052)	(5,687)	(13,644)	(7,906)	(5,738)
Claims incurred during the year	13,600	7,921	5,679	12,471	6,827	5,644
Exchange differences and other movements	20	18	2	(330)	(297)	(33)
Total at the end of the year	<u>28,640</u>	<u>25,971</u>	<u>2,669</u>	<u>27,759</u>	<u>25,084</u>	<u>2,675</u>

THE UNITED KINGDOM FREIGHT DEMURRAGE AND DEFENCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 Provision for unearned premium

	2022			2021		
	Gross £'000	RI £'000	Net £'000	Gross £'000	RI £'000	Net £'000
Movement in provision for unearned premium						
Total at the beginning of the year	-	-	-	-	-	-
Increase / (decrease in provision)	200	153	47	-	-	-
Total at the end of the year	<u>200</u>	<u>153</u>	<u>47</u>	<u>-</u>	<u>-</u>	<u>-</u>

20 Related Party Disclosures

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

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

The Association reinsures with UKDIA on a 90% quota share basis. All Members of the Association are automatically also Members of UKDIA. However, none of the Directors of the Association are Directors of UKDIA. Additionally, UKDIA operates under a separate governance and operational structure, has its own rulebook, and is therefore not considered to be a related party of the Association.

21 Investment in Subsidiary

Name of subsidiary	Country of incorporation	Class of shares held	Principal activity	Proportion of shares and voting rights
The United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited	Republic of Cyprus	Ordinary	Legal cost insurance	100%

The above subsidiary's registered office is at Theklas Lysioti, 37, GEMINI HOUSE, Office 202, 3030, Limassol, Cyprus. The closing value of the investments is £3,160,000 at the statement of financial position date. The subsidiary cedes around 90% of its risks to the Association.

During the year, the subsidiary ceded £1.8 million inwards reinsurance premium to the Association. The Association paid £222,000 claims to its subsidiary under its reinsurance agreement. An intercompany liability of £187,000 is included in the parent company balance sheet within creditors arising out of reinsurance operations.

In addition, the Association novated one of its policies to its subsidiary as a result of Brexit transitional arrangements. This resulted in a loss on novation of £1,600 to the Association.

The Directors consider the value of these investments to be supported by their underlying assets. No impairment is considered to be required.

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

MANAGERS

THOMAS MILLER DEFENCE LIMITED

DIRECTORS

D. J. Evans (Chairman)
J.W.M. Binner
S.J. Griffiths
K. G. Moore
S. L. Murphy
W. D. van der Westhuysen

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