

UKDC
UK DEFENCE CLUB
125 YEARS NEW

FINANCIAL STRENGTH

*The United Kingdom Freight Demurrage and Defence Association Limited,
Directors' Report and Financial Statements for the year ended 20 February 2014*

UKDC
IS MANAGED
BY **THOMAS
MILLER**

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CHAIRMAN'S STATEMENT



In 1888 a number of significant events occurred. The Convention of Constantinople was signed guaranteeing free maritime passage through the Suez Canal during war and peace, Vincent Van Gogh cut off part of his left ear in desperation because nobody would buy his paintings, and the English football league was first established.

Considerable change has occurred in the intervening period. The English football league is largely unrecognisable, passage through the Suez Canal has been severely tested at different times and Van Gogh paintings sell for huge sums of money.

However, 1888 also coincided with the establishment of your Association, as an independent provider of Freight Demurrage & Defence cover to the maritime industry. After 125 years one would and should expect that the Association will have changed. Indeed it has, but not to the extent of being unrecognisable. It remains committed to its core values, focusing on assisting Members when faced with litigation arising under charterparties, newbuilding contracts and other contractual disputes. Claims have undoubtedly become more complex and expensive over the years. In 2013 the Association was involved in assisting many Members where the costs of litigation ran into hundreds of thousands and indeed many millions of pounds. When faced with such a potential exposure, the value and benefit of the cover become more than obvious to all market participants.

Many providers of Defence cover provide it as part of their P&I offering thereby treating it largely as a secondary cover. This Association however is different. Its sole focus is Defence Cover and it puts that at the forefront of all of its activities.

As a brief summary of the Association's standing: entered owned tonnage reached an all time high at 127 million grt in addition to a sizeable book of chartered business. The entries came from all the major shipping communities in the world. These include Greece, China, Germany, France, Asia Pacific, and the United States. There are £52.2 million (\$87.0 million) of assets under management and free reserves of £24.5 million (\$40.7 million).

This is unquestionably a strong financial position. Litigation is, however, an increasingly expensive proposition. A sound financial basis is crucial to the Association's ability to support Members faced with litigation irrespective of the amounts involved.

The Association is registered in the UK and is therefore required to meet European solvency requirements. The Association exceeds those requirements. A new solvency regime is to be implemented in 2016 and your Board is working hard to ensure that the Association is well placed to meet those requirements well before this deadline.

In any business, service is key. In 2013 we undertook the Association's first ever Member & Broker Survey. Those results have recently been published and I am pleased to report that of those Members and brokers who responded, the overall satisfaction with the Association and the Managers was at a high level. That obviously is not the end of the matter as there were areas which will require the Directors' and the Managers' attention. In 2014, and beyond, we will be focusing on those areas to ensure that the Association moves forward taking account of the very valuable comments made by Members and brokers.



Cost of litigation

We have seen the cost of litigation rise significantly in recent years. Without question this relates to the complexity of cases and the amounts in dispute. In many cases where considerable amounts are at stake I, and your Board, fully understand the need and the desire to take protective steps.

In reviewing the Association's history, a circular from 1957 was located which focused on the cost and speed of arbitration and raised a note of caution for Members agreeing that their disputes be resolved in this way. I ask myself whether much has changed in the intervening period.

London arbitration continues to be the forum where the majority of disputes are resolved. Concerns continue to exist about delays and the cost of litigation as highlighted in a number of debates we have held in 2013 with you and various other participants. One of the key comments arising from those debates is that the London Maritime Arbitration Association ('LMAA') continues to be held in high regard. However, in order to maintain its pre-eminence it does need to modernise and reflect modern practice, rather than reflect on the ideals of when it was set up in the 1960's. Most of all, it needs to deal with references in a firm and purposeful way.

I do at this point question how many solicitors and barristers have the same trepidation when dealing with arbitrations, and indeed arbitrators, as they do when before the English High Court and the judges who hear cases there.

The Directors and Managers continue to be concerned about the level of legal costs on certain cases. The Jackson Reforms, referred to later in this Review, are a welcome development and the case of MITCHELL MP v News Group Newspapers Limited sends a strong message to all parties involved in the litigation process that cost, and the need to act in a timely manner, are paramount considerations.

*The Association's
financial position
remains strong
with free reserves
in the order of
£24.5 million.*

Over the past year the Association has assisted Members in a raft of litigation. For instance, the KYLA dealt with the issue of frustration and the owner's ability to terminate a fixture with its charterer following a collision. This case highlighted the need for Members to be aware of difficulties that can arise in referring to hull and machinery values in charterparties. In addition, the case confirmed the inability to appeal to the Court of Appeal from a decision of the High Court reviewing an arbitration award. In that case the Court of Appeal stressed that Members who agree London arbitration have certain grounds to appeal to the English High Court pursuant to the Arbitration Act 1996 but appeals beyond that stage are very unlikely to be permitted.

The case of the BULK URUGUAY concerned claims arising from transit of the Gulf of Aden, and the need to ensure that charterparties are back to back. It highlighted the need for clear and persuasive evidence if a party is to be held to have repudiated a contract.

A number of other cases involved claims against hull and machinery and other underwriters. These claims amounted to many millions of dollars and the Association was heavily involved in assisting Members in reaching favourable resolutions.

An arbitration in the US, one of a dwindling number, involved a dispute concerning oil major approvals. The Member was successful in recovering \$7.45 million. One interesting development was that the US arbitrators awarded the Member its costs. This is a very positive development for those who agree that US arbitrations should be the forum to resolve their disputes.

The above are just a snapshot of some of the key features of the day to day activities of your Association and assistance routinely provided to Members.

At the end of the day, it is about a focus and concern for disputes in which Members become involved and, overall, a genuine desire to assist Members when those disputes occur.

This year is my last year as Chairman and a good occasion to reflect on how the Association continues to develop to meet the needs of its Members. No two disputes are the same and one continues to be surprised about the legal issues that can arise in the majority of cases. The law also continues to develop and your Association plays its part in that development for the benefit of the industry as a whole.

I would like to express my sincere thanks to my Board of Directors for the dedication they show in discharging their duties. The amount of time and effort that is devoted by them to the Association should not be underestimated. Their support and encouragement has made my tenure as Chairman a rewarding and stimulating one. I would also like to thank the Managers, in all their offices worldwide, who work tirelessly in dealing with cases on a day to day basis and dealing with the financial, investment and regulatory aspects of the Association.

It has been a great privilege to be Chairman of this Association over the past 3 years. I pass on my best wishes to the incoming Chairman. I am confident that over the next period, indeed the next 125 years, the Association will be as important and influential as it has been in the past 125 years.

M.G. Pateras

Chairman

The United Kingdom Freight, Demurrage & Defence Association Ltd.

May, 2014

DIRECTORS

E. F. André

M. Bottiglieri

B. C. Goulandris

G. A. Gratsos

M. Hashim

C. R. Kendall

P. C. Laskaridis

M. F. Lykiardopulo

T. J. McClure

M. Nomikos (appointed on 21 June 2013)

S. Palios

P. Pappas

M. G. Pateras (Chairman)

Tan Chin Hee

Y. T. Triphyllis

G. D. Weston

G. Woodford

Zhang Lanshui

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

Under an agreement dated 19 February 1999, the Association reinsures 90 per cent of its business with The United Kingdom Defence Insurance Association (Isle of Man) Limited ("UKDIA").

The number of ships entered in the Association at the year end on 20 February 2014 was 3,540 (2,780 owned and 760 chartered), compared with 3,707 ships (2,587 owned and 1,120 chartered) on 20 February 2013, an overall decrease of 5%.

Financial review

As shown in the Association's Income and Expenditure Account on page 8, the year ended with a surplus on the technical account of £836,000 (2013: £1,729,000 surplus). After investment income, exchange gains/losses and taxation, there was an overall surplus for the year of £27,000 (2013: £1,697,000 surplus). The surplus was mainly caused by improvement of 2012 and prior policy years' claims reserves, though this was partly offset by exchange losses arising from the strengthening of Sterling against the US dollar and Euro during the year, by 8% and 5% respectively.

The surplus for the year led to a rise in the Association's accumulated reserves (shown on the Consolidated Balance Sheet of the Association and its subsidiary, set out on page 9) from a surplus of £1,929,000 at 20 February 2013 to a surplus of £1,956,000 at 20 February 2014.

The Association's gross claims reserves at 20 February 2014 were £27,755,000 (2013: £32,597,000), an overall decrease of £4,842,000 in the year.

The reserves at 20 February 2014, 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 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.

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

- **Market risk**

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices and foreign 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.

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

- **Credit risk**

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

- **Insurance risk**

The Association's risk can arise from:

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

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

- **Liquidity risk**

The Association manages this risk by the use of liquid investments and its ability to call upon its quota share reinsurer, UKDIA, in the event of a significant outflow of funds.

K. P. Halpenny

Secretary

24 April 2014

The Directors have pleasure in presenting their Report and the Financial Statements of the Association for the year ended 20 February 2014.

Directors

The Directors who held office during the year are listed on page 4.

In accordance with the Articles of Association, all the Directors retire at the forthcoming Annual General Meeting to be held on 18 September 2014 and will be eligible for re-election.

Meetings of Directors

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

As in past years, 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 considered 50 major cases during the year. Furthermore, as in past years the Managers considered a substantial number of requests for support in proceedings under the authority delegated to them by the Directors. Of all the cases formally considered by the Board or the Managers, 94% received a significant measure of support from the Association, illustrating the importance attached by both Board and Managers to the Association being supportive of its Members whenever the circumstances render that possible.

The work of the Association remains substantial with approximately 2,350 case files open as at 20 February 2014. 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.

Auditor

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

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

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

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

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

Company law requires the Directors to prepare financial statements for each financial year. 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 law). 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 of the Association and of the profit or loss of the Association for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Directors are responsible for keeping 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.

K. P. Halpenny

Secretary

24 April 2014

Independent Auditor's Report to the Members of The United Kingdom Freight Demurrage and Defence Association Limited

We have audited the financial statements of The United Kingdom Freight Demurrage and Defence Association Limited for the year ended 20 February 2014 which comprise the consolidated income and expenditure account, the consolidated balance sheet, the holding company balance sheet, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Association's affairs as at 20 February 2014 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed
by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Julian Bartlett

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
24 April 2014

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Year ended 20 February 2014

	Note	2014 £'000	2013 £'000
Technical Account			
Gross premiums written		18,762	17,245
Outward reinsurance premiums	3	(10,764)	(7,732)
		7,998	9,513
Claims incurred net of reinsurance			
- Claims paid			
Gross claims paid	4	(15,909)	(14,893)
Reinsurers' share		11,604	10,810
- Change in the provision for claims			
Gross outstanding claims	17	4,842	(2,677)
Reinsurers' share		(4,358)	2,410
		(3,821)	(4,350)
Net operating expenses	5	(3,341)	(3,434)
Balance on the technical account		836	1,729
Non Technical Account			
Balance on the technical account		836	1,729
Investment income	8	15	18
Exchange losses		(824)	(24)
Surplus on ordinary activities before tax		27	1,723
Tax on ordinary activities	14	-	(26)
Surplus on ordinary activities after tax and transferred to reserves	15	27	1,697

All activities represent continuing activities. There are no recognised gains or losses other than the result for the year. The notes on pages 15 to 22 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

20 February 2014

	Note	2014 £'000	2013 £'000
Assets			
Investments			
Other financial investments	10	3,419	2,250
Reinsurers' share of technical provisions			
Claims outstanding		24,980	29,338
Debtors			
Debtors arising out of direct insurance operations	12	1,217	2,924
Other debtors		-	534
Debtors arising out of reinsurance operations		205	185
Cash at bank			
		222	-
Total assets		30,043	35,231
Liabilities			
Capital and reserves			
Income and expenditure account	15	1,956	1,929
Technical provisions			
Claims outstanding	17	27,755	32,597
Creditors			
Creditors arising out of direct insurance operations	13	132	161
Creditors arising out of reinsurance operations		45	60
Other creditors including tax and social security	13	92	421
Accruals and deferred income		63	63
		332	705
Total liabilities		30,043	35,231

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 24 April 2014.

They were signed on its behalf by:

Directors M. G. Pateras G. A. Gratsos

Managers D. J. Evans

The notes on pages 15 to 22 form an integral part of these financial statements.

HOLDING COMPANY BALANCE SHEET

20 February 2014

	Note	2014 £'000	2013 £'000
Assets			
Investments			
Shares in group undertakings	11	50	50
Other financial investments	10	3,419	2,250
Reinsurers' share of technical provisions			
Claims outstanding		24,980	29,338
Debtors			
Debtors arising out of direct insurance operations	12	1,217	2,924
Debtors arising out of reinsurance operations		-	534
Other debtors		155	135
Due from subsidiary		5	5
Cash at bank			
		222	-
Total assets		30,048	35,236
Liabilities			
Capital and reserves			
Income and expenditure account		1,961	1,934
Technical provisions			
Claims outstanding	17	27,755	32,597
Creditors			
Creditors arising out of direct insurance operations	13	132	161
Creditors arising out of reinsurance operations		45	60
Other creditors including tax and social security	13	92	421
Accruals and deferred income		63	63
		332	705
Total liabilities		30,048	35,236

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 24 April 2014.

They were signed on its behalf by:

Directors M. G. Pateras G. A. Gratsos

Managers D. J. Evans

The notes on pages 15 to 22 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 20 February 2014

	Note	2014 £'000	2013 £'000
Cash flow statement			
Premiums received		18,741	17,292
Claims paid net of reinsurers' share		(587)	(1,705)
Reinsurance premiums paid		(10,779)	(7,716)
Other operating cash payments		(5,149)	(9,963)
Net cash inflow / (outflow) from operating activities		2,226	(2,092)
Interest received and exchange gains / (losses)		(809)	(6)
Taxation paid		(26)	-
Increase / (decrease) in cash	16	1,391	(2,098)
Operating activities			
Balance on technical account		836	1,729
(Decrease) / increase in provision for claims		(484)	267
Decrease / (increase) in debtors		2,221	(2,597)
Decrease in creditors		(347)	(1,491)
Net cash inflow / (outflow) from operating activities		2,226	(2,092)

The notes on pages 15 to 22 form an integral part of these financial statements.

1. Constitution

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

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

2. Accounting policies

a) Accounting disclosures

These financial statements have been prepared under the provisions of Section 408 of the Companies Act 2006, which detail the disclosure requirements for income and expenditure accounts in group accounts, and comply with applicable United Kingdom accounting standards. The financial statements are prepared on an annual basis under the historical cost convention as modified by the revaluation of investments and comply with all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006.

b) Foreign currencies

Foreign currency assets and liabilities (except the cost of investment) are translated into sterling at the rates of exchange ruling at the balance sheet date. The resulting difference is treated as unrealised.

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

Differences between closing exchange rates and the rates applying to outstanding forward currency contracts are also recognised. All exchange gains/losses whether realised or unrealised have been included in the Income and Expenditure Account for the year.

c) Gross premiums written

Calls and premiums are net of return premiums 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. There are no unearned premiums.

d) 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. These future claims are based on the Managers' estimate of unreported claims on each policy year. The estimates are calculated by comparing the pattern of claims payments in current policy years with earlier policy years, and then projecting the outcomes of the more recent years.

2. Accounting policies (continued)**d) Claims (continued)**

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

e) Investments

Investments purchased in foreign currencies are translated into sterling on the date of purchase. The market value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date. The investment in the Subsidiary is carried at cost in the Holding Company Balance Sheet.

f) 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 market 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.

g) Consolidation

As the Financial Statements are in consolidated form, the Association is exempt from the requirement to present an Income and Expenditure Account for the holding company.

h) 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 Financial Reporting Standard 19.

3 Outward Reinsurance Premiums

	2014 £'000	2013 £'000
Excess loss premium	405	383
90% quota share premium	15,883	12,411
	16,288	12,794
Agreed discount	(5,524)	(5,062)
	10,764	7,732

4. Gross Claims Paid

	2014 £'000	2013 £'000
Legal costs and expenses	12,796	11,938
Management fee and other expenses in respect of claims handling	3,113	2,955
	15,909	14,893

5. Net Operating Expenses

	Note	2014 £'000	2013 £'000
Management fee	6	1,928	1,836
Directors' remuneration	7	172	139
Auditor's remuneration:			
Audit fees in relation to the audit of the Association's annual accounts		19	20
Non-audit fees in relation to taxation services		4	4
Brokerage		709	703
Other expenses		509	732
		3,341	3,434

6. 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 across three functions which are included in the accounts as follows:

	Note	2014 £'000	2013 £'000
Acquisition costs		1,542	1,469
Other costs		386	367
Management fees in Net Operating Expenses	5	1,928	1,836
Claims handling costs		2,891	2,754
		4,819	4,590

7. Directors' Fees

	2014 £'000	2013 £'000
Aggregate emoluments	172	139

Pension contributions are not made in respect of any of the Directors.

8. Investment Income

	2014 £'000	2013 £'000
Bank deposits	5	-
Return on short term deposit funds	10	18
	15	18

9. Rates of Exchange

The year end rates of exchange equivalent to £1 were:	2014	2013
US dollar	1.6659	1.5443
Euro	1.2149	1.1563

10. Investments

	Market Value		Cost	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Short term deposit funds	3,419	2,250	3,507	2,224
Cash and interest bearing securities repayable: within one year			100%	100%

11. Investments

	Holding Company	
	2014 £'000	2013 £'000
Shares in group undertakings at cost	50	50

The Association owns 100% of the issued share capital of United Kingdom Defence Reinsurance Association Ltd., a company that is incorporated in Bermuda. This company does not trade.

12. Debtors

	2014 £'000	2013 £'000
Arising out of direct insurance operations:		
Members' contributions	276	279
Brokerage	1	5
Recoverable deductibles	567	638
Due from quota share reinsurer	373	2,002
	1,217	2,924

13. Creditors

	The Group		Holding Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Arising out of direct insurance operations:				
Members' contributions	124	145	124	145
Brokerage	8	16	8	16
	132	161	132	161
Other creditors:				
Bank and other borrowings	-	301	-	301
Corporation tax payable	-	26	-	26
PAYE and social security	30	29	30	29
Other creditors	62	65	62	65
	92	421	92	421

14. Taxation

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

Analysis of tax charge for the year:

	2014 £'000	2013 £'000
Corporation tax at 20% (2013: 20%)	-	26
Total current tax	-	26

The tax charge for the year is lower than the standard rate of corporation tax for the year. The differences are explained below.

14. Taxation (continued)

	2014 £'000	2013 £'000
Surplus on ordinary activities before tax	27	1,723
Surplus on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 20% (2013 – 20%)	5	345
Balance on technical account	(167)	(346)
Non-taxable exchange losses	134	29
Losses brought forward	-	(2)
Losses carried forward	28	-
Current tax charge	-	26

A deferred tax asset has not been recognised in respect of the following:

	2014 £'000	2013 £'000
Tax losses	28	-

This deferred tax asset has not been recognised because it is doubtful that a future taxable surplus will be available against which the Group can utilise the benefits.

15. Reconciliation of Movement in Capital and Reserves

	2014 £'000	2013 £'000
Income and expenditure account balance brought forward	1,929	232
Surplus for the year	27	1,697
Income and expenditure account balance carried forward	1,956	1,929

The holding company's income and expenditure account result for the year is a surplus of £27,000 (2013: surplus of £1,697,000).

16. Cash Flow Statement

Movement in cash, deposits and investments

	At 20/02/13 £'000	Cash flow £'000	Change in market value £'000	At 20/02/14 £'000
Cash at bank	-	222	-	222
Other financial investments	2,250	1,169	-	3,419
	2,250	1,391	-	3,641

17. Claims Outstanding

	2014 £'000	2013 £'000
Claims outstanding at end of year	27,755	32,597
Claims outstanding at beginning of year	32,597	29,920
(Decrease) / increase in gross provision for claims	(4,842)	2,677

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 and judgement of the Managers 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 on incurred claims for prior policy years was a release of £2,584,000 (2013: deterioration of £3,286,000).

18. Contingent Assets and Liabilities

A number of guarantees have been given in respect of legal costs relating to cases involving Members, where the Association is already committed to the costs of the cases.

The Association has entered into forward currency contracts to sell US Dollars 15,800,000 for Sterling during 2014 and 2015, which protect part of its US Dollar income against exchange rate fluctuations.

19. Related Party Disclosures

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

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

The Association reinsures with The United Kingdom Defence Insurance Association (Isle of Man) Limited (UKDIA) on a 90% quota share basis. None of the Directors of the Association are Directors of UKDIA.

Managers

Thomas Miller Defence Limited

Directors

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R. A. Bettinson
A. N. Couvadelli
M. E. Cox
S. P. Geraghty
M. R. Jackson
N. G. Long
K. G. Moore
S. L. Murphy
P. M. Sessions

Secretary

K. P. Halpenny

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Subsidiary Company

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Registered Office of Subsidiary

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Strength with independence.

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