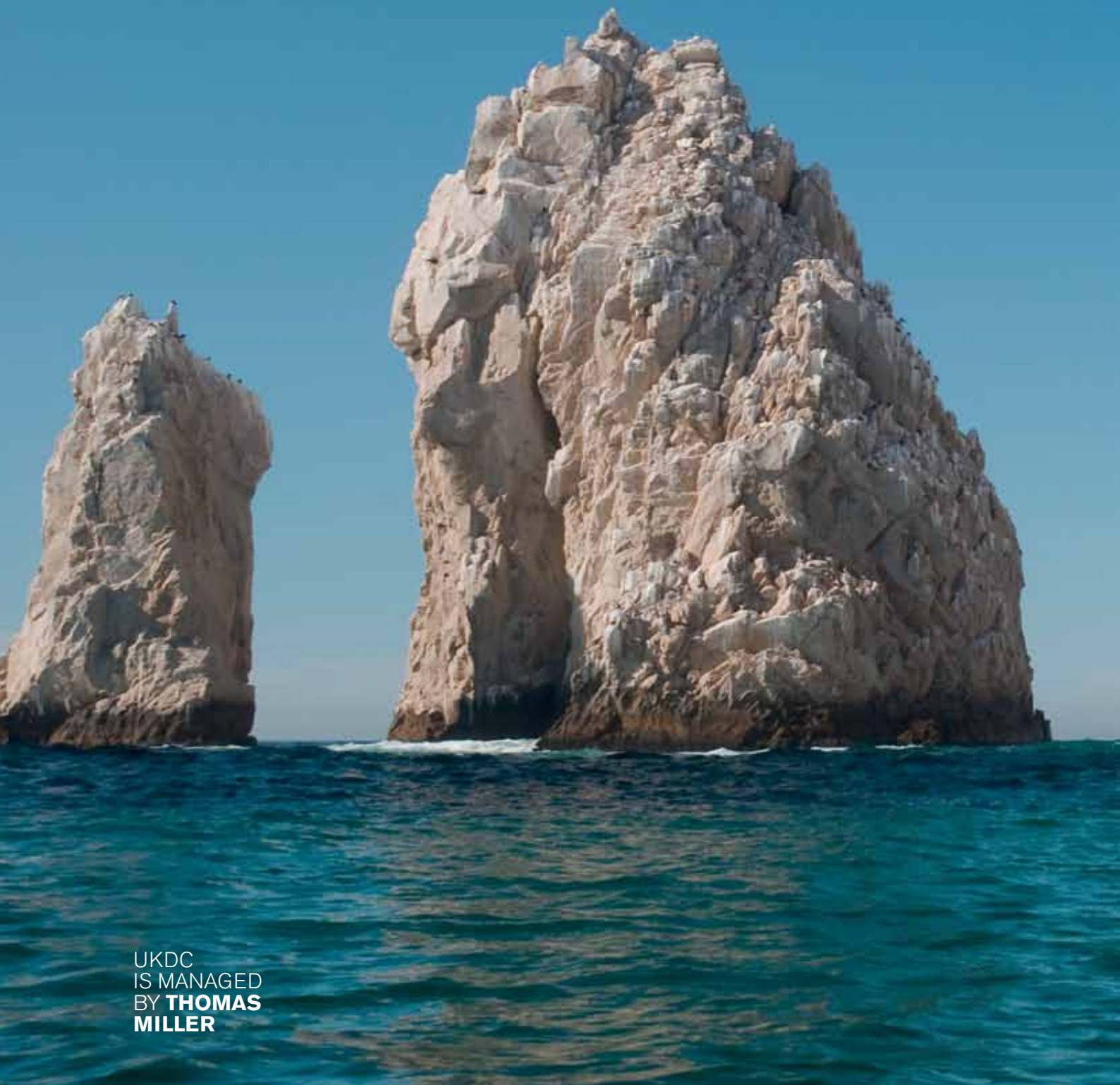


Directors' Report & Financial Statements

The United Kingdom Freight Demurrage and Defence Association Limited
For the year ended 20th February, 2011



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Chairman's Statement

Reflecting on my third year as Chairman of the Association I am led to the inevitable conclusion that this period has been one of the most volatile for shipping markets that I can remember. The pendulum has well and truly swung from a period of exceptionally high freight rates to rates barely covering operating costs. The ramifications of this period are still being felt today and we only have to look at companies that have entered creditor protection schemes to see the effects first hand.

However, the one thing you can say about shipping is that it is made up of individuals who are not only resilient but also resourceful. Shipping companies do not stand still but evolve and adapt to changing circumstances. Newbuilding orders that were prevalent in 2008 and 2009 have in many cases been renegotiated. Although it is said that these deliveries are contributing to current low freight rates the fact that orders continue to be placed suggests that there is confidence in the medium to longer term. Scrapping of older tonnage will of course assist in easing any oversupply. Some sectors have managed to rebound better than others although these sectors were probably the most affected by the fall in freight rates. The containership sector is one which has been assisted by the tentative steps being seen in world growth.

One area of concern to the industry is the issue of piracy. Crew safety has always been of paramount importance to ship operators and, although operators are taking steps they consider appropriate to protect crew, ship and cargo, further steps undoubtedly have to be taken at a national level to protect shipping from this scourge.

Turning to the Association, it is a mutual provider of legal costs insurance to the maritime industry. It is unique in that it is independent and not part of a P&I cover. I am often asked why this is a preferable approach. My short answer is that it means that the Association, and its Board, is very much focused on its core business, which is assisting Members with their claims. Considerable time is taken at each Board meeting in the consideration of cases. The Board brings immense expertise to this process and is very much aware of and alive to the issues that Members face on a day to day basis.

Over the last few years the Association has seen a significant increase in claims, however, this is precisely why the Association's cover is so important. Not only does it enable Members to take steps to protect their financial position, it also alleviates the heavy burden of legal costs that are incurred in any litigation.

This year the Board has considered a wide variety of cases. These included the RAINY SKY, which was a claim by a Member under a refund guarantee. With the support of the Association this case is proceeding to the Supreme Court of the United Kingdom, previously the House of Lords. It is a case which has provoked considerable controversy and legal analysis as to whether a refund guarantee should respond to the insolvency of a shipyard. The question I pose is what is the point of a refund guarantee if it does not respond to such a situation? The English judicial system is one that is renowned for viewing matters in a commercial way and it is hoped that the Supreme Court will consider the wider issues and the implications of such a decision on the industry generally.

The Association was also involved in one of the leading piracy related cases, the SALDANHA. In this case the High Court held, rightly in my view, that a ship under an un-amended NYPE form should remain on-hire during a piracy incident. This provided much needed clarity to shipowners and operators.

LMAA arbitration for Members has also featured heavily during the year. There has been criticism of the LMAA in some quarters, both in terms of its make-up and the speed with which arbitrations are conducted. However, one case involving the Association showcases how the system should operate. The case involved a long term charter and whether or not the ship was able to be delivered. The case started life in late June, 2010. By September, 2010 it had been arbitrated and an award rendered in the Member's favour. The costs incurred in this case were significant, however, the issues involved were of paramount importance to the Member given the long term nature of the charter. The Board had no hesitation in assisting the Member.

Chairman's Statement (continued)

The above provides a mere snapshot of cases in which the Association has been involved, however, as can be seen many of these are important industry cases and are of considerable importance in assisting Members in their business activities.

As an Association focused on its core activities your Board has always been mindful of the Association's financial position. The more solid the foundations the more the Association is able to respond to Member needs and cushion the impact of ever increasing legal fees. I am therefore pleased to report that notwithstanding this volatile period the Association's financial position remains strong.

Free reserves for the year end are £21.7 million, which can be compared to reserves of £19.0 million in 2009/10. This financial position meant that the Association was able to levy a general increase of 2.5% for the year ahead, significantly better than a number of competitors. One must also not forget that the Association does not impose mandatory deductibles or individual claim limits. These should be recognised as clear differentiators between the Association and its competitors.

In the past year I am also pleased to report that the Association has seen continued growth in its Membership. Owned entered ships increased to 2,434 from 2,381 in 2009/10, with the total number (including chartered entries), increasing to 3,493. This is one of the clearest indicators as to the value of the Association's cover.

In previous reports I have mentioned the actions that your Board has been taking in respect of regulation, in particular in preparation for the implementation of Solvency II. The steps continue unabated in order that the Association is able to meet these new EU requirements when they are planned to come in to force in January, 2013.

Throughout my period as Chairman I have been greatly assisted by the dedication of your Board in all the activities of the Association. They are all so committed to the continued success of the Association. It has been a huge pleasure to be Chairman of a Board such as this. There has been some change to the Board

with Alain Bernard standing down after 25 years as a Director, and as Chairman in the period 1996 - 1999. Alain represented Olympic Shipping & Management SA. and his contribution to the Association was unquestionable. Alain's sense of humour and relaxed demeanour hide a keen commercial mind, and Alain was probably the only Director with considerable artistic talent...

Bob Crawford also stood down from the Board during the year. It is safe to say that Bob's tenure as a Board Director over a period of 34 years, three of which were as Chairman (from 1987 – 1990), will remain unparalleled in the annals of the Association. Bob was senior partner with Ince & Co before joining the Vlasov Group. Bob's legal mind and analysis of complex legal and factual issues was something that the Board greatly valued and from which Members benefited. It was entirely fitting that the Association was able to hold a function for him, in conjunction with the UK War Risks Association, at Trinity House on 14th April, 2010.

As ever, I and the Board have been ably assisted by the work undertaken by the Managers. In conjunction with your Board they continue to strive to make the Association what it is today. I am grateful for all their assistance over the past three years.

My sincere thanks to you as Members as well. We have all seen a lot in the past three years and although the business environment has changed, the fundamentals of the Association remain a constant. In this regard I extend my best wishes to my successor, Mr Michael Pateras. The years ahead will undoubtedly be filled with challenges, however, I am confident that the Association will meet these without difficulty and continue to grow and be a cornerstone of Members' operations for many, many years ahead.

P.C. Laskaridis

Chairman

United Kingdom Freight Demurrage
and Defence Association Limited

May, 2011

The United Kingdom Freight Demurrage and Defence Association Limited

Directors

E. F. André

A. S. Bernard (retired without seeking re-election on 16 September, 2010)

M. Bottiglieri

R. G. Crawford, C.B.E. (resigned on 15 April, 2010)

B. C. Goulandris

G. A. Gratsos

M. Hashim

C. R. Kendall

P. C. Laskaridis (Chairman)

M. F. Lykiardopulo

T. J. McClure

S. Palios

P. Pappas

M. G. Pateras

Tan Chin Hee

Y. T. Triphyllis

G. D. Weston

G. Woodford

Report of the Directors

The Directors have pleasure in presenting their Report and the Financial Statements of the Association for the year ended 20 February, 2011.

Principal Activities

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

Under 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, 2011 was 3,493 (2,434 owned and 1,059 chartered), compared with 3,446 ships (2,381 owned and 1,065 chartered) on 20 February, 2010, an overall increase of 1%.

Financial Review

As shown in the Association's Income and Expenditure Account on page 11, the year ended with a surplus on the technical account of £2,277,000 (2010: £48,000 surplus) and after investment income, exchange gains/losses and taxation, there was a surplus for the year of £1,607,000 (2010: £2,778,000 deficit). The surplus was mainly caused by releases from claim reserves for prior policy years following better than expected development.

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 12) from a deficit of £1,197,000 at 20 February, 2010 to a surplus of £410,000 at 20 February, 2011.

The Association's gross claims reserves at 20 February, 2011 were £29,948,000 (2010: £33,397,000), an overall decrease of £3,449,000 in the year.

The reserves at 20 February, 2011, 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.

Report of the Directors (continued)

Financial Risk Management

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

- **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 event of a significant outflow of funds.

Report of the Directors (continued)

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 22 September, 2011 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 39 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, 95% received a significant measure of support from the Association, amply 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 2,744 case files open as at 20 February, 2011. 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.

Donations

Charitable donations paid during the year, which were in respect of Chauncy Maples Malawi Trust, amounted to £33,000 (2010: £nil).

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.

K. P. Halpenny

Secretary

28 April, 2011

Report of the Directors (continued)

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. 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.

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, 2011 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 (APB'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 APB'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 and Association's affairs as at 20 February, 2011 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.

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

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

28 April, 2011

Consolidated Income and Expenditure Account

For the year ended 20 February, 2011

	Note	2011 £'000	2010 £'000
Technical Account			
Gross premiums written		17,672	18,344
Outward reinsurance premiums	3	(8,435)	(11,121)
		<u>9,237</u>	<u>7,223</u>
Claims incurred net of reinsurance			
- Claims paid			
Gross claims paid	4	(14,814)	(15,447)
Reinsurers' share		10,976	11,626
- Change in the provision for claims			
Gross outstanding claims	17	3,449	773
Reinsurers' share		(3,104)	(696)
		<u>(3,493)</u>	<u>(3,744)</u>
Net operating expenses	5	(3,467)	(3,431)
Balance on the technical account		2,277	48
Non Technical Account			
Balance on the technical account		2,277	48
Investment income	8	26	28
Unrealised losses on investments		(147)	(489)
Exchange losses		(549)	(2,454)
Surplus / (deficit) on ordinary activities before tax		<u>1,607</u>	<u>(2,867)</u>
Tax on ordinary activities	14	-	89
Surplus / (deficit) on ordinary activities after tax and transferred to reserves	15	1,607	(2,778)

All activities represent continuing activities. There are no recognised gains or losses other than the result for the year.

Consolidated Balance Sheet

At 20 February, 2011

	Note	2011 £'000	2010 £'000
Assets			
Investments			
Other financial investments	10	3,530	3,069
Reinsurers' share of technical provisions			
Claims outstanding		26,953	30,057
Debtors			
Debtors arising out of direct insurance operations	12	725	493
Other debtors		98	177
Cash at bank		146	350
Total assets		31,452	34,146
Liabilities			
Capital and reserves			
Income and expenditure account	15	410	(1,197)
Technical provisions			
Claims outstanding	17	29,948	33,397
Creditors			
Creditors arising out of direct insurance operations	13	907	1,708
Creditors arising out reinsurance operations		57	50
Other creditors including tax and social security	13	67	81
Accruals and deferred income		63	107
		1,094	1,946
Total liabilities		31,452	34,146

The financial statements of The United Kingdom Freight Demurrage & Defence Association Limited, registration number 00501877, were approved by the Board of Directors and authorised for issue on 28 April, 2011. They were signed on its behalf by:

Directors

P. C. Laskaridis T. J. McClure

Managers

D. J. Evans

Holding Company Balance Sheet

At 20 February, 2011

	Note	2011 £'000	2010 £'000
Assets			
Investments			
Shares in group undertakings	11	50	50
Other financial investments	10	3,530	3,069
Reinsurers' share of technical provisions			
Claims outstanding		26,953	30,057
Debtors			
Debtors arising out of direct insurance operations	12	725	493
Other debtors		48	127
Due from subsidiary		5	5
Cash at bank		146	350
Total assets		31,457	34,151
Liabilities			
Capital and reserves			
Income and expenditure account		420	(1,187)
Technical provisions			
Claims outstanding	17	29,948	33,397
Creditors			
Creditors arising out of direct insurance operations	13	907	1,708
Creditors arising out of reinsurance operations		57	50
Other creditors including tax and social security	13	62	76
Accruals and deferred income		63	107
		1,089	1,941
Total liabilities		31,457	34,151

The financial statements of The United Kingdom Freight Demurrage & Defence Association Limited, registration number 00501877, were approved by the Board of Directors and authorised for issue on 28 April, 2011. They were signed on its behalf by:

Directors

P. C. Laskaridis T. J. McClure

Managers

D. J. Evans

Consolidated Cash Flow Statement

For the year ended 20 February, 2011

	Note	2011 £'000	2010 £'000
Cash Flow Statement			
Premiums received		17,645	18,516
Claims paid net of reinsurers' share		(1,383)	(1,298)
Reinsurance premiums paid		(8,427)	(11,150)
Other operating cash payments		(6,979)	(3,601)
Net cash inflow from operating activities		856	2,467
Interest received and exchange (losses) / gains		(522)	(2,426)
Taxation received / (paid)		83	(460)
Increase / (decrease) in cash	16	417	(419)
Operating Activities			
Balance on technical account		2,277	48
Decrease in provision for claims		(345)	(77)
(Increase) / decrease in debtors		(225)	822
(Decrease) / increase in creditors		(851)	1,674
Net cash inflow from operating activities		856	2,467

Notes to the Financial Statements

For the year ended 20 February, 2011

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 include calls less return premiums and the change in provisions for bad and doubtful debts. These calls and premiums are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any adjustments in respect of prior accounting periods. There are no unearned premiums.

Notes to the Financial Statements (continued)

For the year ended 20 February, 2011

2. Accounting Policies (continued)

(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' best 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 likely outcome of the more recent years.

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.

Notes to the Financial Statements (continued)

For the year ended 20 February, 2011

3. Outward Reinsurance Premiums

	2011	2010
	£'000	£'000
Excess loss premium	386	383
90% quota share premium	13,487	15,487
	13,873	15,870
Agreed discount	(5,438)	(4,749)
	8,435	11,121

4. Gross Claims Paid

	Note	2011	2010
		£'000	£'000
Legal costs and expenses		12,195	12,918
Management fee in respect of claims handling	6	2,619	2,529
		14,814	15,447

5. Net Operating Expenses

	Note	2011	2010
		£'000	£'000
Management fee	6	1,746	1,686
Directors' remuneration	7	117	132
Auditor's remuneration:			
Audit fees in relation to the audit of the Association's annual accounts		14	17
Non-audit fees in relation to review of internal controls and taxation services		12	10
Brokerage		735	753
Donations		33	-
Other expenses		810	833
		3,467	3,431

Notes to the Financial Statements (continued)

For the year ended 20 February, 2011

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	2011	2010
		£'000	£'000
Acquisition costs		1,397	1,349
Other		349	337
Management fees in Net Operating Expenses	5	1,746	1,686
Claims handling	4	2,619	2,529
		4,365	4,215

7. Directors' Fees

	2011	2010
	£'000	£'000
Aggregate emoluments	117	132

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

8. Investment Income

	2011	2010
	£'000	£'000
Bank deposits	2	-
Return on short term deposit funds	24	28
	26	28

Notes to the Financial Statements (continued)

For the year ended 20 February, 2011

9. Rates of Exchange

	2011	2010
The year end rates of exchange equivalent to £1 were:-		
US dollar	1.6209	1.5417
Euro	1.1885	1.1411

10. Investments

	Market Value		Cost	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Short term deposit funds	3,530	3,069	3,586	2,977

	2011	2010
Cash and interest bearing securities repayable:		
within one year	100%	100%

11. Investments

	Holding Company	
	2011	2010
	£'000	£'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.

Notes to the Financial Statements (continued)

For the year ended 20 February, 2011

12. Debtors

	2011	2010
	£'000	£'000
Arising out of direct insurance operations:		
Contributions	236	168
Recoverable deductibles	489	325
	725	493

13. Creditors

	The Group		Holding Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Arising out of direct insurance operations:				
Members	164	123	164	123
Due to quota share reinsurer	743	1,585	743	1,585
	907	1,708	907	1,708
Other creditors:				
PAYE and social security	23	26	23	26
Other creditors	44	55	39	50
	67	81	62	76

Notes to the Financial Statements (continued)

For the year ended 20 February, 2011

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.

The tax charge / (credit) for the year is made up as follows:-

	2011	2010
	£'000	£'000
Corporation tax at 28% (2010: 28%)	-	(89)
Total current tax	-	(89)

The current taxation charge / (credit) for the year is different from the standard rate of corporation tax for companies of this size in the UK (28%). The differences are explained below.

	2011	2010
	£'000	£'000
Surplus / (deficit) on ordinary activities before taxation	1,607	(2,867)
Theoretical tax at UK corporation tax rate of 28% (2010: 28%)	450	(803)
Effects of:		
- Balance on technical account	(638)	(13)
- Non-taxable exchange losses	167	731
- Difference in corporation tax rate of relief on losses carried back	-	(4)
- Losses carried forward	21	-
- Actual current tax charge / (credit)	-	(89)

Notes to the Financial Statements (continued)

For the year ended 20 February, 2011

15. Reconciliation of Movement in Capital and Reserves

	2011 £'000	2010 £'000
Income and expenditure account balance brought forward	(1,197)	1,581
Surplus / (deficit) for the year	1,607	(2,778)
Income and expenditure account balance carried forward	410	(1,197)

The holding company's income and expenditure account result for the year is a surplus of £1,607,000 (2010: deficit of £2,778,000).

16. Cash Flow Statement

Movement in cash, deposits and investments

	At 20/02/10 £'000	Cash flow £'000	Change in market value £'000	At 20/02/11 £'000
Cash at bank	350	(204)	-	146
Other financial investments	3,069	621	(160)	3,530
	3,419	417	(160)	3,676

17. Claims Outstanding

	2011 £'000	2010 £'000
Claims outstanding at end of year	29,948	33,397
Claims outstanding at beginning of year	33,397	34,170
Decrease in gross provision for claims	(3,449)	(773)

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 £3,281,000 (2010: release of £2,544,000).

Notes to the Financial Statements (continued)

For the year ended 20 February, 2011

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 10,750,000 for sterling, during 2011, 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(IOM)) on a 90% quota share basis. None of the Directors of the Association are Directors of UKDIA(IOM).

Managers

Thomas Miller Defence Limited

Directors

D. J. Evans (Chairman)

R. A. Bettinson

A. N. Couvadelli

M. R. Jackson

P. E. Kaye

N. G. Long

S. L. Murphy

P. M. Sessions

Secretary

K. P. Halpenny

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Subsidiary Company

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Registered Office and Business Address of the Subsidiary

P.O. Box HM665,
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The UK Defence Club is a mutual insurance company managed on behalf of its Members by Thomas Miller.

Thomas Miller provides a range of insurance solutions for the international shipping and transport sectors.

Hellenic War Risks, ITIC, TT, UK P&I, UK War Risks

Strength with independence.

The UK Defence Club

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