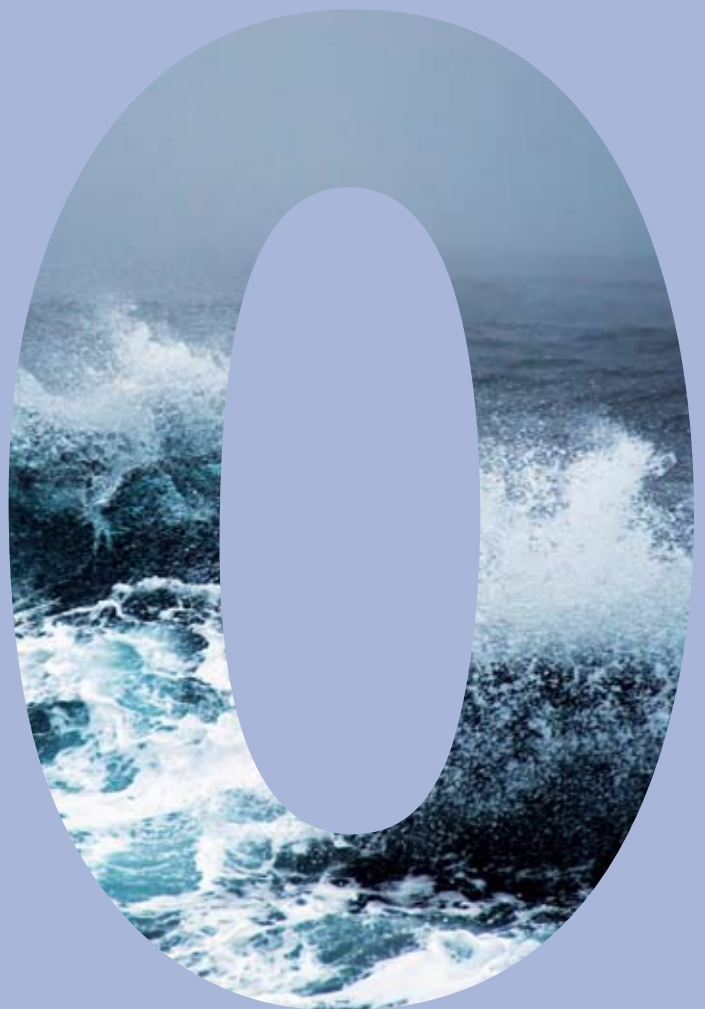


Directors' Report & Financial Statements

The United Kingdom Freight Demurrage and Defence Association Limited
For the year ended 20th February, 2010



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Chairman's Statement

As my second year as Chairman draws to a close it has made me realise the ever increasing importance of the Association's cover. None of us will have been immune in some shape or form from the impact of the 2008 financial collapse. In this period Members quite naturally sought to enforce contractual obligations and minimise any potential exposure without delay.

It is therefore of no surprise at all that the Association, like all other providers of FD&D cover, has seen a significant increase in claims in the past few years. The Association has assisted Members in all manner of disputes, including questions relating to early redelivery, terminations of long term charterparties and contracts of affreightment, sale and purchase and also newbuilding disputes.

In the main these disputes have involved London arbitration under the auspices of the LMAA, however, some have involved other jurisdictions, including the US and Hong Kong. Rule B applications in the US were a particularly potent weapon against recalcitrant parties and it is indeed unfortunate that the US Supreme Court has refused to overturn the decision of the Appeal Court which dealt a death blow to this type of application. No doubt South Africa and France will again be the venue of choice when it comes to security steps.

The LMAA, however, by far and away continues to be the venue of choice for many Members. Its depth of experience is second to none, which is to be welcomed. Notwithstanding the continued commitment of Members to the LMAA, there are criticisms in some quarters about the London arbitral process, particularly concerning case management, speed and cost. In my view all those involved in the arbitral process have their part to play and all parties need to do more to reinforce the values which the LMAA stands for. The arbitrators are however the ones who have the power under the LMAA terms to actively direct proceedings so that claims are dealt with effectively and efficiently.

I mentioned last year that the Managers were enhancing their Value for Money programme. The name of this programme says it all: better value from those service providers for your Membership premium. To enable this to be achieved the Managers are endeavouring to focus work on a smaller number of legal suppliers. This of course does not preclude the use of other firms as appropriate, however, in order to realise the programme's goals it is important that we all try to play our part.

In terms of the Association's financial position for the year-end I am pleased to be able to report that the Association continues to be in a strong position. Over a number of years your Board has been committed to consolidating the Association's financial strength in order that Members are provided with a cover which is cost effective, avoids material increases in premiums year on year and provides the broadest available FD&D cover amongst all its competitors. This financial position is one of the reasons why your Board decided that a general increase of 5% was appropriate for the 2010/11 policy year along with no alterations to the underlying terms of cover. This in itself should provide considerable comfort to Members in a period of continuing uncertainty. Of course no one is complacent and the Directors and Managers are committed to maintaining this sound financial base.

Chairman's Statement (continued)

The Association's free reserves for the year end stand at £19.0million with combined funds totalling £52.4million. In terms of ship numbers the Association continues to have a strong membership base with 3,446 ships currently entered. All of these factors place the Association in a strong position to meet the challenges ahead, not just in terms of market uncertainties but also with regulatory changes on the horizon. New EU wide solvency regulations, known as Solvency II, come into force in November, 2012. This seems some way off, however, considerable work needs to be done to achieve compliance and your Board and the Managers are actively engaged in this process.

Throughout this year your Board has worked tirelessly in order to provide Members with the cover you have come to expect. A considerable number of cases have been considered by the Board with the vast majority, in the order of 97%, receiving support or a substantial measure of support.

I would like to thank my fellow Directors for their considerable insight and support during the year. Their insight, experience and dedication to the affairs of this Association is unquestionable. The time and effort that the Board devotes to the affairs of the Association is one of the many strengths of the Association. There has been some change in the Board's membership this year with Mr Decavèle having stood down. His contribution was significant over many years and we are sad to see him leave. Two new Directors joined the Board during the year; Mr Richard Kendall of The China Navigation Co Ltd and Mr Yannis Triphyllis of Gourdomichalis Maritime S.A. Both in a short time have contributed a great deal to the Association's affairs. I would also like to thank the Management team for their significant assistance to the Board and Members.

In my view the Association's cover is invaluable. Not only does it provide Members with a level of expertise and knowledge which is unparalleled, it also cushions the impact of the costs associated with litigation which costs can be a significant proportion of the overall claim amount.

This Association is of course about you as Members. It exists for you. On behalf of the Board and the Managers I would like to personally thank you for your continuing loyalty. You can rest assured that the Club, its Directors and Managers remain as committed as ever to providing a cover that is not only responsive to Member needs but is able to deliver quality service, cost effectively.

P.C. Laskaridis

Chairman

United Kingdom Freight Demurrage
and Defence Association Limited

April, 2010

The United Kingdom Freight Demurrage and Defence Association Limited

Directors

E. F. André

A. S. Bernard

M. Bottiglieri

R. G. Crawford, C.B.E.

P. P. Decavèle (retired without seeking re-election on 17 September, 2009)

B. C. Goulandris

G. A. Gratsos

M. Hashim

C. R. Kendall (appointed on 25 November, 2009)

P. C. Laskaridis (Chairman)

M. F. Lykiardopulo

T. J. McClure

S. Palios

P. Pappas

M. G. Pateras

Tan Chin Hee

Y. T. Triphyllis (appointed on 25 August, 2009)

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, 2010.

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, 2010 was 3,446 (2,381 owned and 1,065 chartered), compared with 3,965 ships (2,600 owned and 1,365 chartered) on 20 February, 2009, an overall fall of 13%.

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 £48,000 (2009: £1,095,000 deficit) and after investment income, exchange gains / losses and taxation, there was a deficit for the year of £2,778,000 (2009: £484,000 surplus). The deficit was mainly caused by exchange losses on forward contracts resulting from the strength of US dollar and euro exchange rates against sterling during the early part of the year.

The deficit for the year led to a fall 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 surplus of £1,581,000 at 20 February, 2009 to a deficit of £1,197,000 at 20 February, 2010.

The Association's gross claims reserves at 20 February, 2010 were £33,397,000 (2009: £34,170,000), an overall decrease of £773,000 in the year.

The reserves at 20 February, 2010, 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 16 September, 2010 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 32 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, 97% 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 2,799 case files open as at 20 February, 2010. 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.

K. P. Halpenny

Secretary

15 April, 2010

Report of the Directors (continued)

Directors' Responsibilities Statement

The Directors are responsible for preparing the annual 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 income and expenditure 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, 2010 which comprise the consolidated income and expenditure account, the consolidated balance sheet, the holding company balance sheet, 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 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/UKNP.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 20 February, 2010 and of its deficit 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

15 April, 2010

Consolidated Income and Expenditure Account

For the year ended 20 February, 2010

	Note	2010 £'000	2009 £'000
Technical Account			
Gross premiums written		18,344	14,301
Outward reinsurance premiums	3	(11,121)	(8,634)
		<u>7,223</u>	<u>5,667</u>
Claims incurred net of reinsurance			
- Claims paid			
Gross claims paid	4	(15,447)	(10,972)
Reinsurers' share		11,626	7,679
- Change in the provision for claims			
Gross outstanding claims	17	773	(3,493)
Reinsurers' share		(696)	3,144
		<u>(3,744)</u>	<u>(3,642)</u>
Net operating expenses	5	(3,431)	(3,120)
Balance on the technical account		48	(1,095)
Non Technical Account			
Balance on the technical account		48	(1,095)
Investment income	8	28	148
Unrealised (losses) / gains on investments		(489)	475
Exchange (losses) / gains		(2,454)	1,416
(Deficit) / surplus on ordinary activities before tax		<u>(2,867)</u>	944
Tax on ordinary activities	14	89	(460)
(Deficit) / surplus on ordinary activities after tax and transferred to reserves	15	<u>(2,778)</u>	<u>484</u>

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, 2010

	Note	2010 £'000	2009 £'000
Assets			
Investments			
Other financial investments	10	3,069	2,943
Reinsurers' share of technical provisions			
Claims outstanding		30,057	30,753
Debtors			
Debtors arising out of direct insurance operations	12	493	1,332
Other debtors		177	71
Cash at bank		350	1,384
Total assets		34,146	36,483
Liabilities			
Capital and reserves			
Income and expenditure account	15	(1,197)	1,581
Technical provisions			
Claims outstanding	17	33,397	34,170
Creditors			
Creditors arising out of direct insurance operations	13	1,708	50
Creditors arising out reinsurance operations		50	79
Other creditors including tax and social security	13	81	518
Accruals and deferred income		107	85
		1,946	732
Total liabilities		34,146	36,483

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 15 April 2010. They were signed on its behalf by:

Directors

P. C. Laskaridis R. G. Crawford

Managers

D. J. Evans

Holding Company Balance Sheet

At 20 February, 2010

	Note	2010 £'000	2009 £'000
Assets			
Investments			
Shares in group undertakings	11	50	50
Other financial investments	10	3,069	2,943
Reinsurers' share of technical provisions			
Claims outstanding		30,057	30,753
Debtors			
Debtors arising out of direct insurance operations	12	493	1,332
Other debtors		127	21
Due from subsidiary		5	5
Cash at bank		350	1,384
Total assets		34,151	36,488
Liabilities			
Capital and reserves			
Income and expenditure account	15	(1,187)	1,591
Technical provisions			
Claims outstanding	17	33,397	34,170
Creditors			
Creditors arising out of direct insurance operations	13	1,708	50
Creditors arising out of reinsurance operations		50	79
Other creditors including tax and social security	13	76	513
Accruals and deferred income		107	85
		1,941	727
Total liabilities		34,151	36,488

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 15 April 2010. They were signed on its behalf by:

Directors

P. C. Laskaridis R. G. Crawford

Managers

D. J. Evans

Consolidated Cash Flow Statement

For the year ended 20 February, 2010

	Note	2010 £'000	2009 £'000
Cash Flow Statement			
Premiums received		18,516	14,404
Claims paid net of reinsurers' share		(1,298)	(1,015)
Reinsurance premiums paid		(11,150)	(8,666)
Other operating cash payments		(3,601)	(6,387)
Net cash inflow / (outflow) from operating activities		2,467	(1,664)
Interest received and exchange (losses) / gains		(2,426)	1,564
Taxation paid		(460)	(41)
Decrease in cash	16	(419)	(141)
Operating Activities			
Balance on technical account		48	(1,095)
(Decrease) / increase in provision for claims		(77)	349
Decrease / (increase) in debtors		822	(836)
Increase / (decrease) in creditors		1,674	(82)
Net cash inflow / (outflow) from operating activities		2,467	(1,664)

Notes to the Financial Statements

For the year ended 20 February, 2010

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, 2010

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, 2010

3. Outward Reinsurance Premiums

	2010	2009
	£'000	£'000
Excess loss premium	383	363
90% quota share premium	15,487	11,955
	15,870	12,319
Agreed discount	(4,749)	(3,685)
	11,121	8,634

4. Gross Claims Paid

	Note	2010	2009
		£'000	£'000
Legal costs and expenses		12,918	8,532
Management fee in respect of claims handling	6	2,529	2,440
		15,447	10,972

5. Net Operating Expenses

	Note	2010	2009
		£'000	£'000
Management fee	6	1,686	1,627
Directors' remuneration	7	132	129
Auditor's remuneration:			
Audit fees in relation to the audit of the Association's annual accounts		17	14
Non-audit fees in relation to review of internal controls and taxation services		10	10
Brokerage		753	653
Other expenses		833	687
		3,431	3,120

Notes to the Financial Statements (continued)

For the year ended 20 February, 2010

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	2010 £'000	2009 £'000
Acquisition costs		1,349	1,302
Other		337	325
Management fees in Net Operating Expenses	5	1,686	1,627
Claims handling	4	2,529	2,440
		4,215	4,067

7. Directors' Fees

	2010 £'000	2009 £'000
Aggregate emoluments	132	129

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

8. Investment Income

	2010 £'000	2009 £'000
Bank deposits	-	13
Return on short term deposit funds	28	135
	28	148

Notes to the Financial Statements (continued)

For the year ended 20 February, 2010

9. Rates of Exchange

	2010	2009
The year end rates of exchange equivalent to £1 were:-		
US dollar	1.5417	1.4324
Euro	1.1411	1.1354

10. Investments

	Market Value		Cost	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Short term deposit funds	3,069	2,943	2,977	2,363

	2010	2009
Cash and interest bearing securities repayable:		
within one year	100%	100%

11. Investments

	Holding Company	
	2010	2009
	£'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, 2010

12. Debtors

	2010	2009
	£'000	£'000
Arising out of direct insurance operations:		
Contributions	168	267
Recoverable deductibles	325	318
Due from quota share reinsurer	-	747
	493	1,332

13. Creditors

	The Group		Holding Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Arising out of direct insurance operations:				
Members	123	50	123	50
Due to quota share reinsurer	1,585	-	1,585	-
	1,708	50	1,708	50
Other creditors:				
Corporation tax payable	-	460	-	460
PAYE and social security	26	26	26	26
Other creditors	55	32	50	27
	81	518	76	513

Notes to the Financial Statements (continued)

For the year ended 20 February, 2010

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

	2010	2009
	£'000	£'000
Corporation tax at 28% (2009 – 28.2%)	(89)	460
Prior year adjustment	-	-
Total current tax	(89)	460

The current taxation (credit) / charge 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.

	2010	2009
	£'000	£'000
(Deficit) / surplus on ordinary activities before taxation	(2,867)	944
Theoretical tax of UK corporation tax of 28% (2009: 28.2%)	(803)	266
Effects of:		
- Balance on technical account	(13)	309
- Non-taxable exchange losses / gains	731	(115)
- Difference in corporation tax rate of relief on losses carried back	(4)	-
- Actual current tax (credit) / charge	(89)	460

Notes to the Financial Statements (continued)

For the year ended 20 February, 2010

15. Reconciliation of Movement in Capital and Reserves

	2010	2009
	£'000	£'000
Income and expenditure account balance brought forward	1,581	1,097
(Deficit) / surplus for the year	(2,778)	484
Income and expenditure account balance carried forward	(1,197)	1,581

The holding company's income and expenditure account result for the year is a deficit of £2,778,000 (2009: surplus of £484,000).

16. Cash flow statement

Movement in cash, deposits and investments

	At	Cash flow	Change in	At
	20/02/09	£'000	market value	20/02/10
	£'000	£'000	£'000	£'000
Cash at bank	1,384	(1,034)	-	350
Other financial investments	2,943	530	(404)	3,069
	4,327	(504)	(404)	3,419

17. Claims Outstanding

	2010	2009
	£'000	£'000
Claims outstanding at end of year	33,397	34,170
Claims outstanding at beginning of year	34,170	30,677
(Decrease) / Increase in gross provision for claims	(773)	3,493

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 £2,544,000 (2009: £3,912,000).

Notes to the Financial Statements (continued)

For the year ended 20 February, 2010

18. Contingent 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 15,000,000 for sterling, during 2010, 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

A. A. J. Mackinnon

S. L. Murphy

P. M. Sessions

Secretary

K. P. Halpenny

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00501877 England

Subsidiary Company

United Kingdom Defence Reinsurance Association Ltd.

Registered Office and Business Address of the Subsidiary

P.O. Box HM665,
Hamilton HMCX
Bermuda.

Telephone: +1 441 292 4724

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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