UK DEFENCE CLUB

Directors' Report & Financial Statements

The United Kingdom Freight Demurrage and Defence Association Limited
For the year ended 20th February, 2012

UKDC
IS MANAGED
BY **THOMAS**
MILLER

Contents

Company number: 00501877

Chairman's Statement

"When I joined the Board of the Association in 1994, shipping markets had just experienced one of their worst periods. At that time average earnings across all sectors were in the order of $12,000 per day. If we look at today, rates are currently at similar levels and could well go lower. With rates such as these, coupled with high bunker prices, is there any wonder that many shipowners and operators are under considerable financial pressure."

Since the heady heights of 2008 the Association has been involved in a considerable number of cases assisting Members to lessen the impact of defaulting counterparties. In many cases considerable effort and cost has been expended in order to secure these claims. Worldwide freezing orders granted by the English High Court have proved to be an effective way of reducing the risk of dissipation of assets. Rule B applications in the US also continue to prove helpful in some cases. With the assistance of the Association, Members have been able to secure their claims which, in some instances, have run into many millions of dollars. No doubt these measures will continue to be deployed where there is a risk of counterparty default particularly if pressure on freight rates continues.

The Association has also been involved in a number of cases where a Member is part of a chain of charterparties. These are notoriously difficult to resolve particularly when one or more parties adopts an inflexible position. The LMAA terms continue not to allow consolidation unless by agreement and therefore the cost consequences of a multi chain arbitration can be considerable. One aspect that Members need to bear in mind is that liability for costs may not be limited solely to their own arbitration, as there are circumstances where a contingent cost liability may arise from a sub-arbitration as well.

The Association has not however just been involved in cases relating to counterparty risk. A large number of cases have been litigated, particularly in the United Kingdom, both in court and by way of arbitration. The case of the RAINY SKY probably says more about the Association than any words can do. Not only does this case reinforce the value of the cover, it also provides evidence of the vitally important, but probably understated, role that the Association plays in shaping English maritime law.

As many will be aware the case of the RAINY SKY involved refund guarantees totalling $46.2 million. The key aspect of the case was whether such guarantees should respond to the insolvency of a shipyard. The decision has had far reaching implications for maritime law in the UK and elsewhere.

At first instance the English Commercial Court found in the Member's favour, essentially holding that the refund guarantees should be interpreted in a commercial way. This however was overturned by a majority in the Court of Appeal who applied a strict interpretation of the guarantees. The Supreme Court restored the balance with Lord Clarke holding that,

"If there are two possible constructions, the court is entitled to prefer the construction which is consistent with business common sense and to reject the other."

This decision, which places "business common sense" at the forefront of issues of interpretation, is to be welcomed and applauded. The industry needs an approach such as this so that commercial considerations are not overlooked or dismissed. This is precisely why the English Commercial Court and indeed the LMAA were established many years ago.

The UK continues to be the jurisdiction of choice for the majority of disputes. The legal and technical expertise that is available is unquestionable. It is however clear that costs are becoming a significant issue on many claims. What were once apparently routine matters now have the propensity to escalate disproportionately. This may in part be due to charterparty chains and multiplicity of litigation however legal cost inflation is also a factor.

The Managers have, to some extent, managed to contain these costs through their Value for Money programme however much more needs to be done. The Directors

Chairman's Statement (continued)

still see too many cases where the initial estimates that are provided by third party service providers have been found wanting. The Directors place a great deal of reliance on the estimates that are provided and have requested that the Managers take further steps in order to ensure the accuracy of estimates that are provided.

2011/12 has been very successful in terms of the level of claims that have been upheld in Members' favour. This is borne out by reference to the cost recoveries that have been made. It is anticipated that cost recoveries in the order of $3.5 million will have been made as against cost liabilities in the region of $1.5 million. Not all cases can be won, however this proportion of recoveries to liabilities evidences that the processes that the Directors and the Managers have in place are, in my view, appropriate and fit for purpose.

The Association's financial position remains strong with free reserves in the order of £21.5 million. This has meant that the Association has been able to deal with a significant increase in claims over the past few years without having to levy significant premium increases or change the underlying terms of the cover. A 5% general increase for this policy year, lower than many of its competitors, highlights the benefit of this financial position.

The financial strength of the Association should not be under estimated. Members will be aware that this Association is independent and is not a class of P&I cover unlike many of its competitors. What does this mean for Members? It means that this Association, its Board and Managers are focused purely on defence related matters, and the Association's reserves have been established solely for this. As an independent organisation the Association sets its own investment policy and one which the Board reviews regularly. The Board has historically always taken a conservative approach to its investments recognising that these are the funds of Members. Notwithstanding this, I am pleased to report an investment return of 4.6% for the year which was an excellent result particularly in light of the volatile investment markets and low interest rates.

Your Board also continues to be very mindful of new solvency requirements, in the form of Solvency II, which are to come in to force in the next few years. A significant amount of time is being devoted by the Board to ensure that the Association meets these requirements.

In terms of Members, I am pleased to report that through the year owned entered ships grew from 2,434 to 2,501 with chartered entries now totalling 810. The Association's Membership is drawn from all maritime shipping nations. I am pleased to report that we have seen very pleasing growth from a number of regions this year in particular Asia Pacific and Japan along with Greece and the Middle East.

These areas are ably supported by the Managers who have significant operations in various locations including Hong Kong, Singapore and Greece and who are able to respond to Member issues in their own time zones. I and my fellow Directors also ensure that the Board is representative of the Membership and I am pleased to say that we have representation from many different countries and fleet profiles.

I would finally like to thank my fellow Directors for their support and sound advice. Their commitment and dedication to the Association is second to none. I would also like to express my appreciation to the management team for protecting the interests of the Membership so diligently and also assisting the Board in the conduct of the Association's affairs.

For Members the year ahead will undoubtedly be far from straightforward however I am absolutely convinced that the Association will remain on a solid footing to assist Members throughout this period and in to the future.

M. G. Pateras

Chairman
The United Kingdom Freight Demurrage and Defence Association Limited
May, 2012

The United Kingdom Freight Demurrage and Defence Association Limited

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

S. Palios

P. Pappas

M. G. Pateras (Chairman)

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 2012.

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 2012 was 3,311 (2,501 owned and 810 chartered), compared with 3,493 ships (2,434 owned and 1,059 chartered) on 20 February 2011, an overall decrease of 5%.

Financial Review

As shown in the Association's Income and Expenditure Account on page 11, the year ended with a deficit on the technical account of £805,000 (2011: £2,277,000 surplus) and after investment income, exchange gains/losses and taxation, there was a deficit for the year of £183,000 (2011: £1,607,000 surplus). The deficit was mainly caused by deterioration in prior policy year claims reserves.

The deficit for the year led to a fall in the Association's accumulated reserves (shown on he Consolidated Balance Sheet of the Association and its subsidiary, set out on page 12) from a surplus of £410,000 at 20 February 2011 to a surplus of £227,000 at 20 February 2012.

The Association's gross claims reserves at 20 February 2012 were £29,920,000 (2011: £29,948,000), an overall decrease of £28,000 in the year.

The reserves at 20 February 2012, 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 the 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 20 September 2012 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 35 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, 98% 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 2,918 case files open as at 20 February 2012. 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 amounted to £nil (2011: £33,000).

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.

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.

K. P. Halpenny
Secretary

19 April 2012

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 2012 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 2012 and of the Group's 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

19 April 2012

Consolidated Income and Expenditure Account

For the year ended 20 February, 2012

	Note	2012	(restated) 2011
		£'000	£'000
Technical Account			
Gross premiums written		16,479	17,672
Outward reinsurance premiums	4	(9,872)	(8,435)
		6,607	9,237
Claims incurred net of reinsurance			
- Claims paid			
Gross claims paid	5	(15,353)	(14,814)
Reinsurers' share		11,357	10,976
- Change in the provision for claims			
Gross outstanding claims	18	28	3,449
Reinsurers' share		(25)	(3,104)
		(3,993)	(3,493)
Net operating expenses	6	(3,419)	(3,467)
Balance on the technical account		**(805)**	**2,277**
Non Technical Account			
Balance on the technical account		(805)	2,277
Investment income	9	29	26
Exchange gains / (losses)	3	593	(696)
(Deficit) / surplus on ordinary activities before tax		(183)	1,607
Tax on ordinary activities	15	-	-
(Deficit) / surplus on ordinary activities after tax and transferred to reserves	16	**(183)**	**1,607**

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 23 form an integral part of these Financial Statements.

Consolidated Balance Sheet

At 20 February, 2012

	Note	2012 £'000	2011 £'000
Assets			
Investments			
Other financial investments	11	3,718	3,530
Reinsurers' share of technical provisions			
Claims outstanding		26,928	26,953
Debtors			
Debtors arising out of direct insurance operations	13	880	725
Other debtors		143	98
Cash at bank		630	146
Total assets		**32,299**	**31,452**
Liabilities			
Capital and reserves			
Income and expenditure account	16	227	410
Technical provisions			
Claims outstanding	18	29,920	29,948
Creditors			
Creditors arising out of direct insurance operations	14	1,910	907
Creditors arising out reinsurance operations		44	57
Other creditors including tax and social security	14	148	67
Accruals and deferred income		50	63
		2,152	1,094
Total liabilities		**32,299**	**31,452**

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 19 April 2012. They were signed on its behalf by:

Directors

M. G. Pateras T. J. McClure

Managers

D. J. Evans

The notes on pages 15 to 23 form an integral part of these Financial Statements.

Holding Company Balance Sheet

At 20 February, 2012

	Note	2012 £'000	2011 £'000
Assets			
Investments			
Shares in group undertakings	12	50	50
Other financial investments	11	3,718	3,530
Reinsurers' share of technical provisions			
Claims outstanding		26,928	26,953
Debtors			
Debtors arising out of direct insurance operations	13	880	725
Other debtors		93	48
Due from subsidiary		5	5
Cash at bank		630	146
Total assets		**32,304**	**31,457**
Liabilities			
Capital and reserves			
Income and expenditure account		237	420
Technical provisions			
Claims outstanding	18	29,920	29,948
Creditors			
Creditors arising out of direct insurance operations	14	1,910	907
Creditors arising out of reinsurance operations		44	57
Other creditors including tax and social security	14	143	62
Accruals and deferred income		50	63
		2,147	1,089
Total liabilities		**32,304**	**31,457**

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 19 April 2012. They were signed on its behalf by:

Directors

M. G. Pateras T. J. McClure

Managers

D. J. Evans

The notes on pages 15 to 23 form an integral part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 20 February, 2012

	Note	2012 £'000	2011 £'000
Cash Flow Statement			
Premiums received		16,381	17,645
Claims paid net of reinsurers' share		(1,368)	(1,383)
Reinsurance premiums paid		(9,885)	(8,427)
Other operating cash payments		(5,084)	(6,979)
Net cash inflow from operating activities		**44**	**856**
Interest received and exchange gains / (losses)		622	(522)
Taxation received		6	83
Increase in cash	17	**672**	**417**
Operating Activities			
Balance on technical account		(805)	2,277
Decrease in provision for claims		(3)	(345)
Increase in debtors		(206)	(225)
Increase / (decrease) in creditors		1,058	(851)
Net cash inflow from operating activities		**44**	**856**

The notes on pages 15 to 23 form an integral part of these Financial Statements.

Notes to the Financial Statements

For the year ended 20 February, 2012

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, 2012

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, 2012

3. Prior Year Reclassification

During the year, the Association changed its accounting policy in respect of the treatment of unrealised exchange gains/losses on investments. Unrealised gains/losses relating to investments in UCITS-compliant money market funds have been reclassified as exchange gains/losses as this provides a better indication of the nature of these gains/losses.

The impact of the change in accounting policy at 20 February 2011 is shown below.

	As previously reported £'000	Effect of Change £'000	As restated £'000
Unrealised losses on investments	(147)	147	-
Exchange gains / losses	(549)	(147)	(696)

4. Outward Reinsurance Premiums

	2012 £'000	2011 £'000
Excess loss premium	367	386
90% quota share premium	13,895	13,487
	14,262	13,873
Agreed discount	(4,390)	(5,438)
	9,872	**8,435**

5. Gross Claims Paid

	Note	2012 £'000	2011 £'000
Legal costs and expenses		12,619	12,195
Management fee in respect of claims handling	7	2,734	2,619
		15,353	**14,814**

Notes to the Financial Statements (continued)

For the year ended 20 February, 2012

6. Net Operating Expenses

	Note	2012 £'000	2011 £'000
Management fee	7	1,822	1,746
Directors' remuneration	8	150	117
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		3	12
Brokerage		673	735
Donations		-	33
Other expenses		754	810
		3,419	**3,467**

7. 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	2012 £'000	2011 £'000
Acquisition costs		1,458	1,397
Other		364	349
Management fees in Net Operating Expenses	6	1,822	1,746
Claims handling	5	2,734	2,619
		4,556	**4,365**

Notes to the Financial Statements (continued)

For the year ended 20 February, 2012

8. Directors' Fees

	2012 £'000	2011 £'000
Aggregate emoluments	**150**	**117**

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

9. Investment Income

	2012 £'000	2011 £'000
Bank deposits	5	2
Return on short term deposit funds	24	24
	29	**26**

10. Rates of Exchange

	2012	2011
The year end rates of exchange equivalent to £1 were:-		
US dollar	1.5817	1.6209
Euro	1.2015	1.1885

11. Investments

	Market Value		Cost	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Short term deposit funds	**3,718**	3,530	**3,669**	3,586

	2012	2011
Cash and interest bearing securities repayable:		
within one year	**100%**	100%

Notes to the Financial Statements (continued)

For the year ended 20 February, 2012

12. Investments

	Holding Company 2012 £'000	Holding Company 2011 £'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.

13. Debtors

	2012 £'000	2011 £'000
Arising out of direct insurance operations:		
Contributions	285	236
Recoverable deductibles	595	489
	880	**725**

14. Creditors

	The Group		Holding Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Arising out of direct insurance operations:				
Members	114	164	114	164
Due to quota share reinsurer	1,796	743	1,796	743
	1,910	**907**	**1,910**	**907**
Other creditors:				
PAYE and social security	31	23	31	23
Other creditors	117	44	112	39
	148	**67**	**143**	**62**

Notes to the Financial Statements (continued)

For the year ended 20 February, 2012

15. 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:

	2012 £'000	2011 £'000
Corporation tax at 26.2% (2011: 28%)	-	-
Total current tax	-	-

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

	2012 £'000	2011 £'000
(Deficit) / surplus on ordinary activities before tax	**(183)**	**1,607**
(Deficit)/surplus on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 26.2% (2011 - 28%)	(48)	450
Balance on technical account	211	(638)
Non-taxable exchange gains / (losses)	(146)	167
Losses brought forward	(19)	-
Losses carried forward	2	21
Current tax charge	-	-

The UK standard rate of corporation tax changed to 26% with effect from 1 April 2011.

Notes to the Financial Statements (continued)

For the year ended 20 February, 2012

16. Reconciliation of Movement in Capital and Reserves

	2012 £'000	2011 £'000
Income and expenditure account balance brought forward	410	(1,197)
(Deficit) / surplus for the year	(183)	1,607
Income and expenditure account balance carried forward	**227**	**410**

The holding company's income and expenditure account result for the year is a deficit of £183,000 (2011: surplus of £1,607,000).

17. Cash Flow Statement

Movement in cash, deposits and investments

	At 20/02/11 £'000	Cash flow £'000	Change in market value £'000	At 20/02/12 £'000
Cash at bank	146	484	-	630
Other financial investments	3,530	188	-	3,718
	3,676	**672**	**-**	**4,348**

18. Claims Outstanding

	2012 £'000	2011 £'000
Claims outstanding at end of year	29,920	29,948
Claims outstanding at beginning of year	29,948	33,397
Decrease in gross provision for claims	**(28)**	**(3,449)**

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 deterioration of £375,000 (2011: release of £3,281,000).

Notes to the Financial Statements (continued)

For the year ended 20 February, 2012

19. 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 14,500,000 for Sterling, during 2012, which protect part of its US Dollar income against exchange rate fluctuations.

20. Related Party Disclosures

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

All 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

D. J. Evans (Chairman)

R. A. Bettinson

A. N. Couvadelli

M. R. Jackson

N. G. Long

S. L. Murphy

P. M. Sessions

Secretary

K. P. Halpenny

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Subsidiary Company

United Kingdom Defence Reinsurance Association Ltd.

Registered Office and Business Address of the Subsidiary

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Hamilton HMCX
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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.

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