

ABOVE & BEYOND

*The United Kingdom Freight Demurrage and Defence Association Limited,
Directors' Report and Financial Statements for the year ended 20 February 2015*

CONTENTS

Chairman's Statement	2
Directors	4
Strategic Report	5
Report of the Directors	7
Independent Auditor's Report	9
Consolidated Income and Expenditure Account	11
Consolidated Balance Sheet	12
Holding Company Balance Sheet	13
Consolidated Cash Flow Statement	14
Notes to the Financial Statements	15
Managers	24

Company number: 00501877

CHAIRMAN'S STATEMENT



When I took over as Chairman of the Association in the middle of 2014 I had a number of aspirations. First and foremost I wanted the Association to continue to build on its solid financial footing which my predecessor had put in place. I also wanted to ensure that the Association continues to provide cost effective legal costs insurance to its Members who increasingly face difficult and litigious trading conditions.

Fundamental to any insurance business is financial security and stability and I am pleased to say that the Association is very well positioned in this regard. Free reserves have grown to £28.4m. Membership has also grown. I am pleased to report that total entered tonnage now stands in excess of 167 million GT, following a net 5% growth in owned tonnage during the year. This reflects the continued confidence that Members place in the Association's cover particularly in these uncertain times.

I also believe that by announcing a 0% General Increase for the 2015/16 policy year, combined with the introduction of a continuity credit scheme, the Board evidenced very clearly that the finances of the Association are strong and that continuing to support the Membership is paramount. As a mutual your Board recognises that the Association's primary focus should be on its Members. Financial security is crucial. However, at the same time it should also be recognised that there must come a point that the Association's reserves, barring some sort of unforeseen catastrophe or another, are sufficient in the vast majority of cases to meet its liabilities. We are not a commercial underwriter. We are a mutual and as a mutual the Board of Directors has a duty to you as Members to regularly review its capital requirements.

Your Board is very cognisant of difficulties which the current market conditions place on Members, particularly in the dry sector. Those circumstances place great pressure on the operating environment. The demise of OW Bunkers however, highlights very clearly that claims can manifest themselves in different ways, at different times and can seriously impact upon the activities of our Members.

Your Association is currently involved in a significant number of OW Bunkers related disputes. The desire to avoid double payments to physical suppliers and OW administrators is paramount. Various actions have been commenced in the UK, the United States and elsewhere in order to challenge various claimants. Your Board has already committed considerable support to expedite certain claims in order to obtain much needed clarity. Over the years the Association has taken the lead in many cases which have benefited Members generally and this is another such situation. We hope any decisions that are ultimately reached by the tribunals and courts involved will have much wider application than just the individual cases and Members concerned. It cannot be right that Members should be exposed to a double payment situation and we are determined to assist Members, as far as we can, who may be exposed to such situations.

CHAIRMAN'S STATEMENT

Legal costs are far from insignificant and I challenge any Member to fund the costs of a five-day arbitration hearing without having cause for concern as to the cost, irrespective of the financial value of the claims involved.

Another area in which the Association is endeavouring to take a lead is in respect of legal fees. The Managers' Value for Money programme was introduced a few years ago with the aim of increasing the focus on how costs were being incurred and the likely outcome in any given case. We are determined to continue to move this forward. Hourly rates have been with us for many years and I doubt anyone really believes that hourly billing promotes the timely and cost effective resolution of cases. I think we must all strive to achieve much greater certainty and value from our legal service and other suppliers. Your Board and the Managers are actively seeking to agree, where appropriate, new billing type arrangements such as fixed fees, caps and collars and the like in order to provide much greater certainty to the outcome of a case.

The value of Defence cover is increasingly important to Members, irrespective of trade or jurisdiction particularly in the present market environment. Legal costs are far from insignificant and I challenge any Member to fund the costs of a five-day arbitration hearing without having cause for concern as to the cost, irrespective of the financial value of the claims involved.

Regulation plays an increasing and important part of the Association's day to day affairs, as it should. For a number of years now your Board and the Managers have been working hard to ensure that Solvency II capital and other requirements, which come into force in January, 2016, are met. That work continues alongside the day to day activities of the Association.

The year just gone is one in which we have all faced many challenges. I would like to think that the Association understands some of those challenges and has responded in an appropriate way. As a Board we always strive to support Members when disputes arise and to find ways to resolve cases as is appropriate. Some cases appear intractable, many involve charterparty chains with differing views and opinions depending on the parties involved. Our goal, and that of the Managers, is to find solutions where solutions exist. If cases have to litigate, and many have to, I like to think that your Association is one which will stand by you, where we can, irrespective of the level of costs which may be incurred. The Association's strong financial position allows us to do this.

I am very honoured to chair this Association and I am grateful to my fellow Directors for their tireless contribution to the Association's affairs. The Managers also deserve much credit and my sincere thanks to them for all their activities ensuring that this Association is, in my mind, second to none.

M.F. Lykiardopulo

Chairman

The United Kingdom Freight,
Demurrage & Defence Association Ltd.
May, 2015

DIRECTORS

E. F. André	
M. Bottiglieri	
B. C. Goulandris	
G. A. Gratsos	
M. Hashim	Resigned 13 November 2014
C. R. Kendall	
P. C. Laskaridis	
M. F. Lykiardopulo	Chairman
T. J. McClure	Resigned 4 July 2014
M. Nomikos	
S. Palios	
P. Pappas	
M. G. Pateras	
T. A. Stafilopatis	Appointed 13 November 2014
Tan Chin Hee	
Y. T. Triphyllis	
M. R. Wade	Appointed 13 November 2014
G. D. Weston	
G. Woodford	
Zhang Lanshui	

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

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

The number of ships entered in the Association at the year end on 20 February 2015 was 3,694 (2,914 owned and 780 chartered), compared with 3,540 ships (2,780 owned and 760 chartered) on 20 February 2014, an overall increase of 4%.

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 £142,000 (2014: £836,000 surplus). After investment income, exchange gains/losses and taxation, there was an overall surplus for the year of £1,218,000 (2014: £27,000 surplus). The surplus was mainly caused by exchange gains arising from the 8% weakening of Sterling against the US dollar during the year.

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 surplus of £1,956,000 at 20 February 2014 to a surplus of £3,174,000 at 20 February 2015.

The Association's gross claims reserves at 20 February 2015 were £28,317,000 (2014: £27,755,000), an overall increase of £562,000 in the year.

The reserves at 20 February 2015, together with calls made on Members after that date, are available and, in the opinion of the Directors, meet the Association's outgoings and the legal costs and other expenses of the Association's business.

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

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

- **Market risk**

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

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

- **Credit risk**

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Association's exposure primarily relates to debtors and bank balances. Exposure to debtors, which is mainly in respect of calls and premium contributions, is spread over a large number of Members and counterparties, which mitigates the risk. Exposure to bank balances, however, is more concentrated, with two main counterparties and the risk is mitigated by placing funds surplus to normal operational requirements in money market funds and other investments.

- **Insurance risk**

The Association's risk can arise from:

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

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

- **Liquidity risk**

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

K. P. Halpenny

Secretary

23 April 2015

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 2015.

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 17 September 2015 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.

A substantial portion of each meeting involved the consideration of Members' cases in which the Association's support was requested for court or arbitration proceedings, the Directors considering 36 major cases during the year. The Managers also considered a substantial number of requests for support in proceedings under the authority delegated to them by the Directors and reports on those cases were presented to the Board at each meeting. Of all the cases formally considered by the Board or the Managers, 94% received a significant measure of support from the Association, illustrating the importance attached by both Board and Managers to the Association being supportive of its Members whenever the circumstances render that possible.

The work of the Association remains substantial with approximately 2,950 case files open as at 20 February 2015. 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.

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

23 April 2015

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 2015 which comprise the consolidated income and expenditure account, the consolidated balance sheet, the Association (Parent Company) balance sheet, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and of the Association's affairs as at 20 February 2015 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed
by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 by the Association, or returns adequate for our audit have not been received from branches not visited by us; or
- the Association's 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.

Andrew Heffron

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
23 April 2015

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Year ended 20 February 2015

	Note	2015 £'000	2014 £'000
Technical Account			
Gross premiums written		18,519	18,762
Outward reinsurance premiums	3	(16,062)	(16,288)
Agreed discount on outward reinsurance premiums		5,566	5,524
		8,023	7,998
Claims incurred net of reinsurance			
- Claims paid			
Gross claims paid	4	(12,745)	(15,909)
Reinsurers' share		8,533	11,604
- Change in the provision for claims			
Gross outstanding claims	17	(562)	4,842
Reinsurers' share		522	(4,358)
		(4,252)	(3,821)
Net operating expenses	5	(3,629)	(3,341)
Balance on the technical account		142	836
Non Technical Account			
Balance on the technical account		142	836
Investment income	8	15	15
Exchange gains / (losses)		1,058	(824)
Surplus on ordinary activities before tax		1,215	27
Tax on ordinary activities	14	3	-
Surplus on ordinary activities after tax and transferred to reserves	15	1,218	27

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

20 February 2015

	Note	2015 £'000	2014 £'000
Assets			
Investments			
Other financial investments	10	2,677	3,419
Reinsurers' share of technical provisions			
Claims outstanding		25,501	24,980
Debtors			
Debtors arising out of direct insurance operations	12	2,754	1,217
Other debtors		310	205
Cash at bank			
		816	222
Total assets		32,058	30,043
Liabilities			
Capital and reserves			
Income and expenditure account	15	3,174	1,956
Technical provisions			
Claims outstanding	17	28,317	27,755
Creditors			
Creditors arising out of direct insurance operations	13	305	132
Creditors arising out of reinsurance operations		60	45
Other creditors including tax and social security	13	117	92
Accruals and deferred income		85	63
		567	332
Total liabilities		32,058	30,043

The financial statements of The United Kingdom Freight Demurrage and Defence Association Limited, registration number 00501877, were approved by the Board of Directors and authorised for issue on 23 April 2015.

They were signed on its behalf by:

Directors M. F. Lykiardopulo G. A. Gratsos

Managers D. J. Evans

The notes on pages 15 to 23 form an integral part of these financial statements.

ASSOCIATION (PARENT COMPANY) BALANCE SHEET

20 February 2015

	Note	2015 £'000	2014 £'000
Assets			
Investments			
Shares in group undertakings	11	50	50
Other financial investments	10	2,677	3,419
Reinsurers' share of technical provisions			
Claims outstanding		25,501	24,980
Debtors			
Debtors arising out of direct insurance operations	12	2,754	1,217
Other debtors		260	155
Due from subsidiary		5	5
Cash at bank			
		816	222
Total assets		32,063	30,048
Liabilities			
Capital and reserves			
Income and expenditure account		3,179	1,961
Technical provisions			
Claims outstanding	17	28,317	27,755
Creditors			
Creditors arising out of direct insurance operations	13	305	132
Creditors arising out of reinsurance operations		60	45
Other creditors including tax and social security	13	117	92
Accruals and deferred income		85	63
		567	332
Total liabilities		32,063	30,048

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CONSOLIDATED CASH FLOW STATEMENT

Year ended 20 February 2015

	Note	2015 £'000	2014 £'000
Net cash flow from operating activities			
Premiums received		18,381	18,741
Claims paid net of reinsurers' share		(991)	(587)
Reinsurance premiums paid		(10,481)	(10,779)
Other operating cash payments		(8,156)	(5,149)
Net cash (outflow) / inflow from operating activities		(1,247)	2,226
Interest received and exchange gains / (losses)		1,073	(809)
Taxation received / (paid)		26	(26)
(Decrease) / increase in cash	16	(148)	1,391
Reconciliation of the balance on technical account to the net cash (outflow) / inflow from operating activities			
Balance on technical account		142	836
Increase / (decrease) in provision for claims		40	(484)
(Increase) / decrease in debtors		(1,641)	2,221
Increase / (decrease) in creditors		212	(347)
Net cash (outflow) / inflow from operating activities		(1,247)	2,226

The notes on pages 15 to 23 form an integral part of these financial statements.

1. Constitution

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

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

2. Accounting policies

a) Accounting disclosures

These financial statements have been prepared under the provisions of Section 408 of the Companies Act 2006, which detail the disclosure requirements for income and expenditure accounts in group accounts, and comply with applicable United Kingdom accounting standards. The financial statements are prepared on an annual basis under the historical cost convention as modified by the revaluation of investments and comply with all 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 monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. The resulting difference is treated as unrealised. The costs of investments are translated into sterling at the rate applicable for the date on which they were purchased.

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

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

c) Gross premiums written

Calls and premiums are net of return premiums and are the total receivable for the whole period of cover provided by the contracts incepting during the accounting period together with any adjustments in respect of prior accounting periods. There are no unearned premiums as all policies expire on or before the balance sheet date.

d) Outward reinsurance premiums

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

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

These are the legal costs and expenses of the Members covered by the Association. They include all claims incurred during the year, whether paid, estimated or unreported, together with internal claims management costs and future claims management costs and adjustments for claims outstanding from previous years.

A forecast of unreported claims is based on the estimated ultimate cost of claims arising out of events which have occurred before the end of the accounting period but have not yet been reported. The Directors' estimate for these future claims is based on the estimate of unreported claims on each policy year. The estimates are calculated by comparing the pattern of claims payments and estimates in current policy years with earlier policy years, and then projecting the outcomes of the more recent years.

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.

Due to current market conditions claims exposure in 2014 has been affected by insolvencies of operators including bunker suppliers. As a result of their higher costs and atypical nature a different approach has been taken to allow for these claims.

The results of an exposure analysis have been incorporated in determining the reserves for such claims and have been projected to arrive at a best estimate based on a weighted average of probability of success in different jurisdictions.

These claims may be subject to a higher degree of uncertainty than is normal for the Association as the events can lead to multiple claims, many of which may be at an early stage of development and involve various types of litigation. The ultimate settlement cost may not be apparent until some years after the relevant insolvency event.

Claims of this type do not lend themselves to traditional actuarial techniques and the uncertainty surrounding the ultimate cost of settlement is greater than for more standard claims within the Association's businesses. An additional amount has been added for unreported claims.

f) Investments

Investments in short term deposit funds and the foreign exchange security deposit are carried in both the Consolidated and Association (Parent Company) Balance Sheets at market value. Market value is calculated using the bid price at the close of business on the balance sheet date. Those purchased in foreign currencies are translated into sterling on the date of purchase. The 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 Association (Parent Company) Balance Sheet.

2. Accounting policies (continued)**g) 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.

h) Consolidation

The Association has taken advantage of the Companies Act 2006, section 408 exemption not to present an Income and Expenditure Account for the parent company.

i) Taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by Financial Reporting Standard 19.

3 Outward Reinsurance Premiums

	2015 £'000	2014 £'000
Excess loss premium	366	405
90% quota share premium	15,696	15,883
	16,062	16,288

The 90% quota share reinsurance premium is subject to a discount which is agreed on an annual basis with the reinsurance quota share provider, The United Kingdom Defence Insurance Association (Isle of Man) Limited (UKDIA).

4. Gross Claims Paid

	Note	2015 £'000	2014 £'000
Legal costs and expenses		9,481	12,796
Claims handling costs:			
Management fee	6	3,043	2,891
Other expenses	5	221	222
		12,745	15,909

5. Net Operating Expenses

	Note	2015 £'000	2014 £'000
Management fee	6	2,028	1,928
Directors' remuneration	7	165	172
Auditor's remuneration:			
Audit fees in relation to the audit of the Association's annual accounts		20	19
Non-audit fees in relation to taxation services		5	4
Brokerage		714	709
Other expenses		918	731
		3,850	3,563
Net operating expenses allocated to claims handling	4	(221)	(222)
		3,629	3,341

6. Management Fee

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

The management fee is apportioned between the different management functions and consists of acquisition costs, which include the cost of underwriting and credit control; claims handling costs; and other costs which include accounting, regulatory compliance, and general management. The fee is allocated to these functions which are included in the accounts as follows:

	Note	2015 £'000	2014 £'000
Acquisition costs		1,623	1,542
Other costs		405	386
Management fees in Net Operating Expenses	5	2,028	1,928
Claims handling costs	4	3,043	2,891
		5,071	4,819

7. Directors' Fees

	2015 £'000	2014 £'000
Aggregate emoluments	165	172

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

8. Investment Income

	2015 £'000	2014 £'000
Bank deposits	4	5
Return on short term deposit funds	11	10
	15	15

9. Rates of Exchange

The year end rates of exchange equivalent to £1 were:	2015	2014
US dollar	1.5371	1.6659
Euro	1.3521	1.2149

10. Investments

These relate to the Group and the Association (parent company).

	Market Value		Cost	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Short term deposit funds	1,173	3,419	1,147	3,507
Foreign exchange security deposit	1,504	-	1,500	-
	2,677	3,419	2,647	3,507
			2015	2014
Percentage of cash and interest bearing securities repayable: within one year			100%	100%

The foreign exchange security deposit is charged to The Royal Bank of Scotland plc as collateral in respect of the Association's forward currency contracts.

11. Investments

	Association (Parent Company)	
	2015 £'000	2014 £'000
Shares in group undertakings at cost	50	50

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

12. Debtors

	The Group		Association (Parent Company)	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Arising out of direct insurance operations:				
Members' contributions	533	276	533	276
Brokerage	55	1	55	1
Claims deductibles recoverable from Members	611	567	611	567
Due from quota share reinsurer	1,555	373	1,555	373
	2,754	1,217	2,754	1,217

13. Creditors

	The Group		Association (Parent Company)	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Arising out of direct insurance operations:				
Members' contributions	291	124	291	124
Brokerage	14	8	14	8
	305	132	305	132
Other creditors:				
Corporation tax payable	24	-	24	-
PAYE and social security	34	30	34	30
Other creditors	59	62	59	62
	117	92	117	92

14. Taxation

This relates to the Association (parent 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 (credit)/charge for the year:

	2015 £'000	2014 £'000
Corporation tax at 20% (2014: 20%)	24	-
Prior year adjustment	(27)	-
Total current tax	(3)	-

The tax (credit) / charge for the year is different from the standard rate of corporation tax for the year. The differences are explained below.

	2015 £'000	2014 £'000
Surplus on ordinary activities before tax	1,218	27
Surplus on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 20% (2014 – 20%)	243	5
Balance on technical account	(28)	(167)
Non-taxable exchange losses	(189)	134
Prior year adjustment	(27)	-
Losses brought forward	(2)	-
Losses carried forward	-	28
Current tax charge	(3)	-

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

	2015 £'000	2014 £'000
Tax losses	-	28

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

15. Reconciliation of Movement in Capital and Reserves

	2015 £'000	2014 £'000
Income and expenditure account balance brought forward	1,956	1,929
Surplus for the year	1,218	27
Income and expenditure account balance carried forward	3,174	1,956

The holding company's income and expenditure account result for the year is a surplus of £1,218,000 (2014: surplus of £27,000).

16. Cash Flow Statement

Movement in cash, deposits and investments

	At 20/02/14 £'000	Cash flow £'000	Change in market value £'000	At 20/02/15 £'000
Cash at bank	222	594	-	816
Other financial investments	3,419	(742)	-	2,677
	3,641	(148)	-	3,493

17. Claims Outstanding

	2015 £'000	2014 £'000
Claims outstanding at end of year	28,317	27,755
Claims outstanding at beginning of year	27,755	32,597
Increase / (decrease) in gross provision for claims	562	(4,842)

The nature of the business makes it very difficult to predict the likely outcome of any particular case and to estimate the cost of future claims. The estimates for known outstanding claims are based on the best estimates of the Directors of the likely cost of individual cases, and the extent of the Association's current commitment to the cost of these cases. These estimates are as accurate as possible given the details of the cases and taking into account all the current information. The estimates are reviewed regularly.

17. Claims Outstanding (continued)

The movement in the gross provision for claims is the difference between the provision for outstanding claims on all policy years at the beginning of the year and the equivalent provision at the end of the year, after deduction of all claims paid during the financial year and addition of new claims notified in the 2014 policy year.

The movement on incurred claims for prior policy years was a release of £871,000 (2014: release of £2,584,000).

18. Contingent Assets and Liabilities

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

The Association has entered into forward currency contracts to sell US Dollars 17,350,000 for Sterling during 2015, which protect part of its US Dollar income against exchange rate fluctuations.

19. Related Party Disclosures

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

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

The Association reinsures with The United Kingdom Defence Insurance Association (Isle of Man) Limited (UKDIA) on a 90% quota share basis. All Members of the Association are automatically also Members of UKDIA. However, none of the Directors of the Association are Directors of UKDIA and UKDIA is not considered to be a related party of the Association.

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R. A. Bettinson
J. W. M. Binner
A. N. Couvadelli
M. E. Cox
S. P. Geraghty
M. R. Jackson
K. G. Moore
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Secretary

K. P. Halpenny

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