UK P&I CLUB

October Review 2011

100%

100% Clarity

Financial Overview

The surplus for the year to date of $8 million has increased the free reserve and hybrid capital from $478 million to $486 million.

The UK Club's financial position has improved strongly over the last three years. Total assets are currently in excess of $1.6 billion.

Combined ratio

The expected combined ratio for 2011/12 year is below 100 per cent. If achieved at the year-end the Club will have had two successive years of balanced underwriting. The Club is continuing to meet its long term target of 100 per cent combined ratio.

Free reserves & capital

The surplus for the year to date of $8 million has increased the free reserve and hybrid capital from $478 million to $486 million.
In Standard and Poor's capital model the Club's capital adequacy is now in the AAA range. This combined with a free reserves per gross ton figure of $4.5 puts the Club's financial strength at the top level of its peer group in the P&I sector.

$4.5

Free reserves/gross ton

>$1.6bn

Total assets

$486m

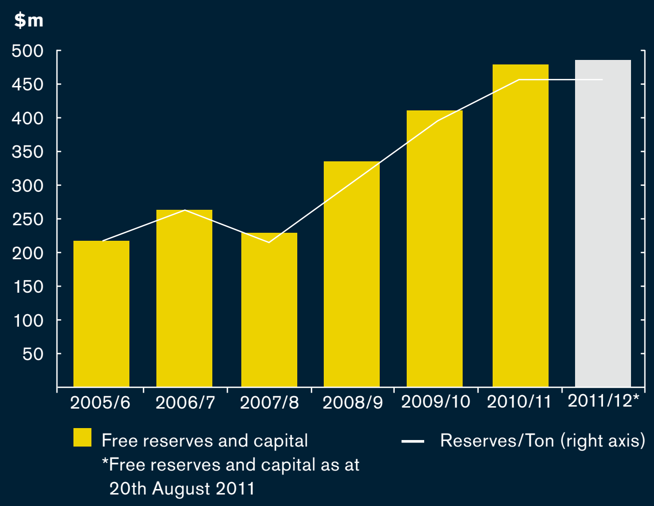
Free reserves and capital

Financial Highlights
Expected combined ratio for this year is <100%, if achieved the Club will have had two successive years of balanced underwriting.

Financial strength

- Capital and reserves increased to $486 million at half year point
- Capital and reserves of $4.5 per gross ton
- Capital adequacy in AAA range of S&P capital model
- S&P rating of A- (Outlook: Stable)

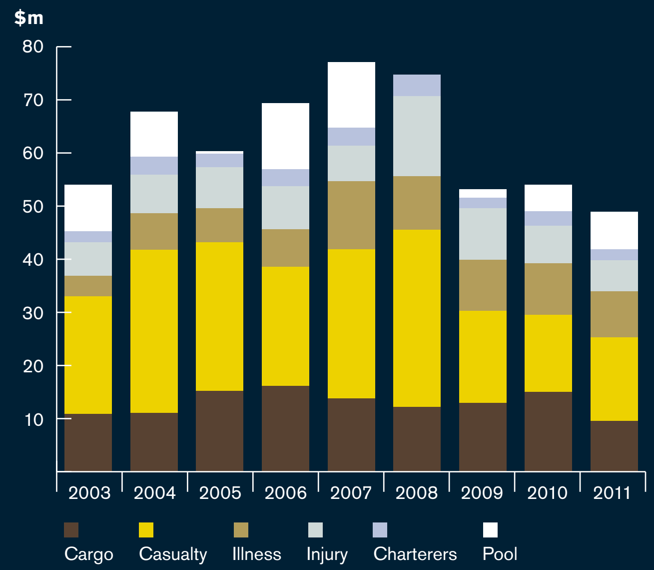
Capital & reserves for financial years 2006 - 2012



Claims values

- 2011 claims experience very encouraging after six months
- Prudent approach to reserving maintained
- Good loss record within the Pool maintained
- Pool credit balance $68m

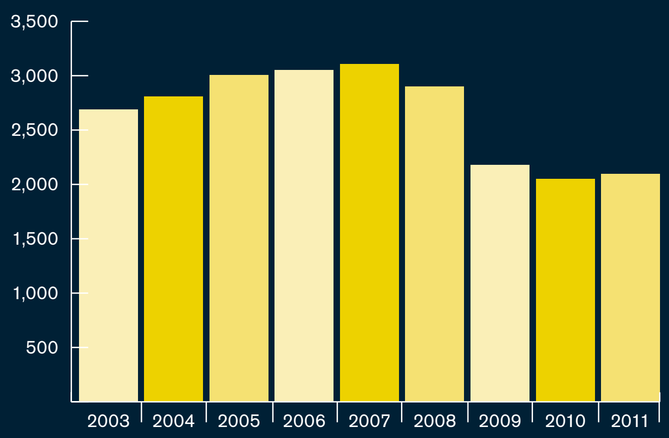
Net notified claims at 6 months for policy years 2003 - 2011 ($m)



Claims frequency

- Frequency of claims down significantly in 2009, 2010 and 2011
- Frequency of claims reduced across all categories

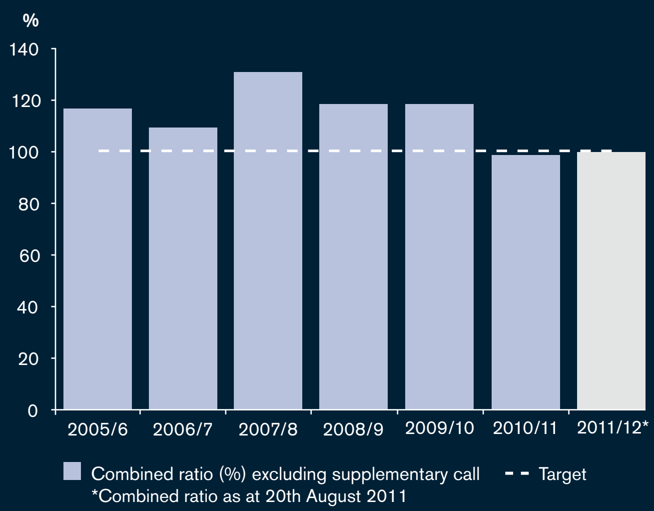
Number of claims after 6 months



Underwriting discipline

- Combined ratio target of 100% met
- Combined ratio for 2011/12 at half-year also 100%

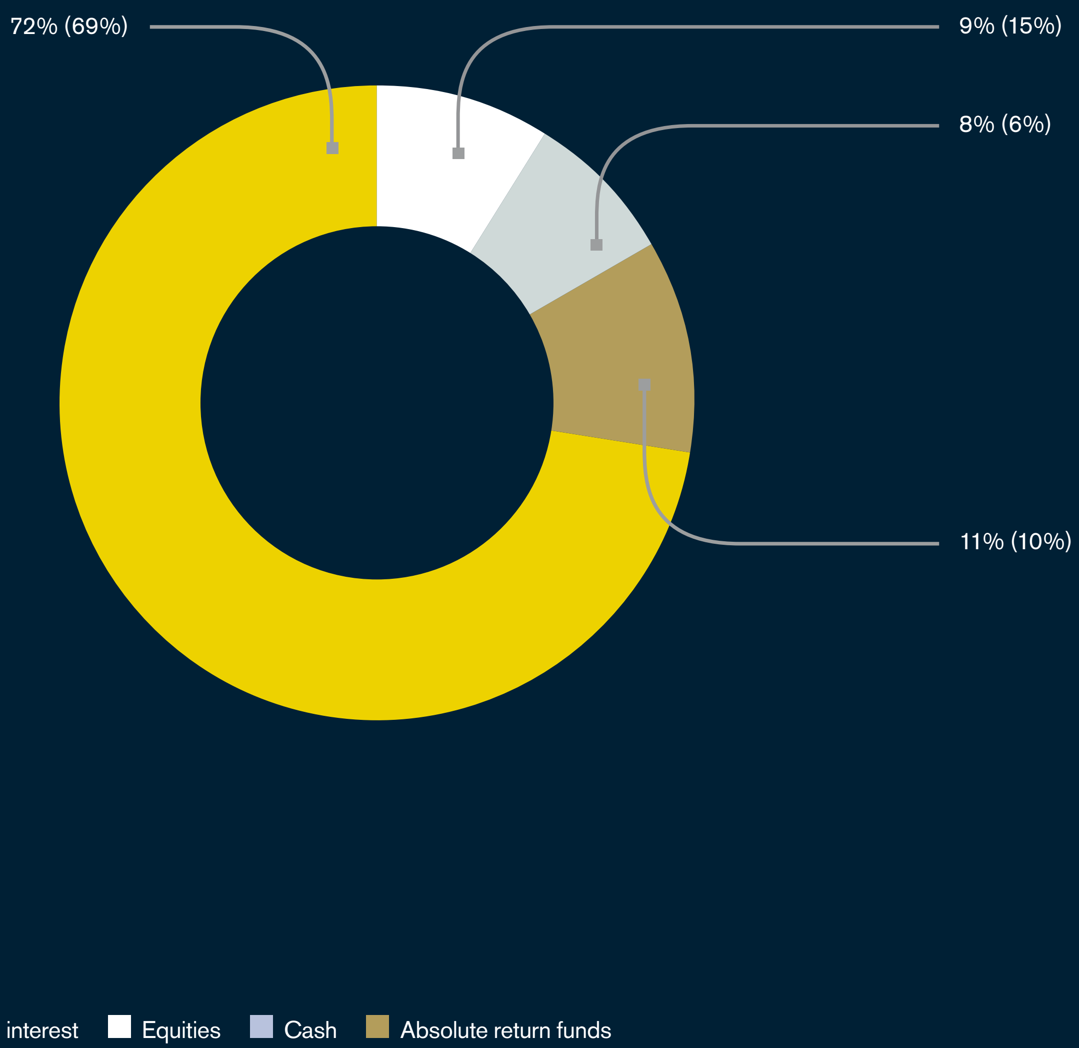
Combined ratio for financial years 2006-2012



Our investment portfolio was further de-risked in September 2011 and equities are now less than 10 per cent of holdings.

Conservative portfolio position

September 2011 Asset Portfolio
(February 2011 percentages in brackets)



Investment performance

99% of all bonds invested in by the Club are A grade or better.

Investment performance & policy

Investments returned $14.5 million for the six months to August, representing a return of 2 per cent. Since then market conditions have been exceptionally volatile as a result of the European sovereign debt crisis, worries over the solvency of European banks and concerns over the extent of recovery in the US. The Club decided to reduce portfolio risk in September by reducing the proportion of equities from 15 per cent to 9 per cent of the portfolio. The funds have been invested in short duration fixed interest securities. Fixed interest holdings have increased further to 72 per cent of the portfolio. Ninety-nine per cent of all bonds invested in by the Club are A grade or better.

There is a lot riding on policy makers in Europe over the next few months. The Board accepts that risk assets represent reasonable value at present while such economic gloom persists, but feel it is in the Club's best interest to adopt a more conservative investment stance in the shorter term.

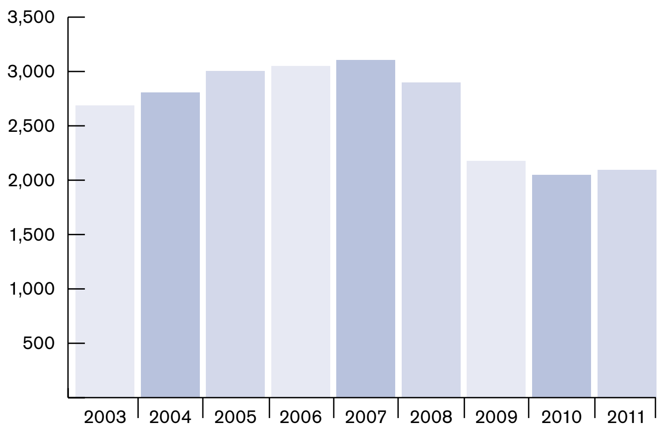
Claims Overview

In the first half of the 2011 policy year, claims levels remained low, due to the depressed shipping market and the consequent reduced frequency of claims. Currently, the claims experience on the 2011 year is looking to be similar to the 2009 policy year. However, it is still early in this year's development and the ultimate outcome could yet change significantly depending on claims experience in the second half of the policy year. Should the claims development continue in the same way for the second half of the year, then it will be the Club's best year for claims for a decade. Cargo claims for the first six months of 2011 policy year were 76 per cent by number compared to 2008; injury claims were 67 per cent by number for the same period compared with 2008.

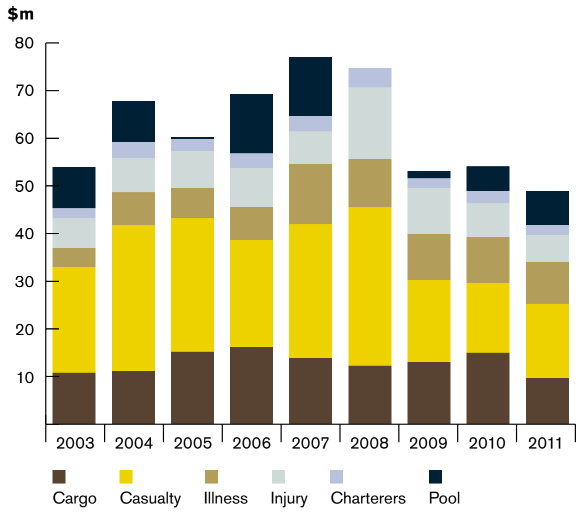
Past policy years

Back years have shown an improving trend, especially 2008, 2009 and 2010. At the half year stage, it has been possible to release $25 million from the claims reserves while maintaining the same level of reserving confidence. The Club's strong margins mean that it should be capable of weathering an unexpected deterioration in claims on past years without affecting free reserves.

Claims frequency after 6 months



Net notified claims at 6 months for policy years 2003 - 2011 ($m)



2011/12 could be "the Club's best year for claims for a decade"

Underlying claims inflation

Underlying claims inflation has been a feature running at about 5 per cent each year, with some categories of claim inflating at rates of up to 15 per cent. While the shipping market remains depressed, it is expected that the total cost of claims will be lower than previous years, due to the reduced frequency of claims. It is difficult to predict when shipping will recover and it is possible that some sectors or areas of the world may come out of recession earlier than others with a consequent rise in claims.

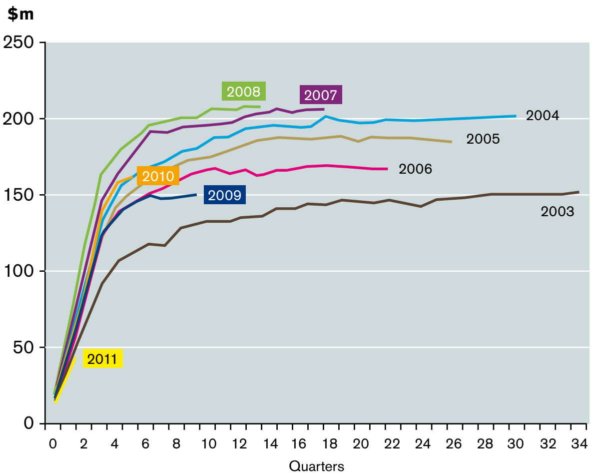
Illness

Illness claims have proved to be the stand out category of claim in terms of improvement across a number of policy years. A number of larger claims have seen a better than expected outcome as well as improvement in the smaller attritional claims, which has seen net notified claims numbers trending downwards over the past few years.

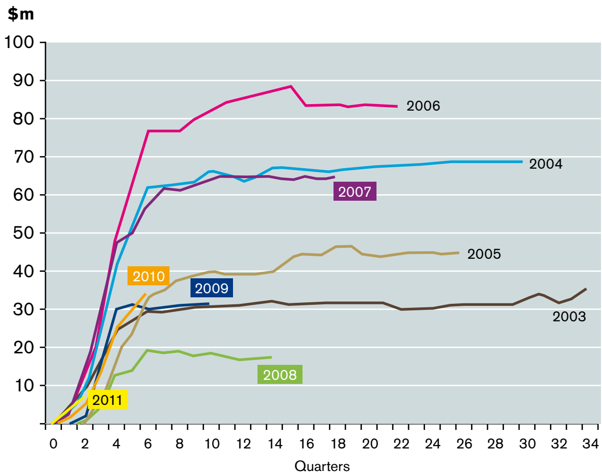
Pool

After the run of very heavy Pool claims in 2004, 2006 and 2007 at the peak of the shipping market, the level of claims coming through into the Pool has abated significantly. Although 2008 showed a high level of retained claims, this was not matched by a high level of Pool claims. Conversely, in 2009 and 2010 the largest claims on the Pool were UK Club claims, at a time when the Club's retained claims were significantly reduced. This underlines the essentially random nature of Pool claims. The overall cost of Pool claims to the Club over 2008, 2009 and 2010 policy years remains within expectations and has been capped by the purchase of reinsurance protection by the Club. The Club's credit balance on the Pool currently stands at $68 million.

Net retained claims as at 20th August 2011 ($m)



Net notified Pool claims as at 20th August 2011 ($m)



The Club is listening to its members and preparing for the future

Solvency 2

The Club continues to make significant and substantial progress in its preparations for the implementation of Solvency 2. The Club's application to the UK FSA for clearance to develop its own internal model for Solvency 2 was successful and that model is currently under development. The internal model will be submitted to the FSA for validation in line with the Solvency 2 timetable.

Hybrid capital

The Club's hybrid capital issued in 2008 continues to provide significant benefits to the Club and its Members. It counts under the current UK FSA regulatory regime towards the Club's regulatory capital and will continue to do so under the grandfathering arrangements for Solvency 2. This means that the Club does not need to hold as much of Members' own funds for regulatory purposes. The cost of the hybrid capital is mitigated because the funds are invested along with the Club's other assets. Hybrid capital gives the Club greater capital efficiency and flexibility at a time when the total capital needed to be held by insurers under Solvency 2 is still not clear.

Club reorganisation

Along with many other in the insurance industry, the Club has been reviewing its corporate structure. The Club has identified that a reduction in the number of regulated entities would deliver a number of benefits including streamlined governance, reduced compliance costs and efficient management of the Club's solvency capital requirements. The Managers will shortly be writing to Members with details of the planned reorganisation. There will also be a dedicated area on the Club's website where information and further updates on progress will be made available.

Member survey

The Club carried out a Member and Broker satisfaction survey this year. The results of the survey have recently been published and are available in hard copy and on the website. The survey highlighted a number of features of the Club highly valued by Members where the Club performed well, as a number of areas of improvement which are being addressed. The average overall satisfaction score for Members was 8.14 and 7.58 for brokers out of a possible 10.

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