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UK P&I Club “the Club”



7 July 2008

Largest mutual P&I Club to raise around \$100million of new capital

- First issue of hybrid capital by a mutual P&I club
- New capital will enable the Club to meet future requirements of European Union Solvency II Directive
- The Capital Securities will have a fixed coupon of 9% during the first five years
- Securities to be listed on the London Stock Exchange
- UBS Investment Bank is Lead Manager, Bookrunner and Structuring Advisor

The UK P&I Club has approved the issue of around \$100 million of Capital Securities to be listed on the London Stock Exchange.

The UK P&I Club

The UK P&I Club is one of the oldest P&I clubs established in 1869. It is also the largest mutual marine protection and indemnity organisation in the world. The UK P&I Club insures well over 150 million tons of owned and chartered ships about one-sixth of the world total. The Club's current S&P rating is A with stable outlook. The ships that the UK P&I Club insures come from more than fifty countries.

Background to the issue

In planning for the introduction of EU Solvency II Directive in 2012, the Board has anticipated that this directive will increase its solvency requirements and as a result has decided to approve the issue of hybrid capital. The Board is strongly of the view that this capital raising provides a cost-effective way of increasing the Club's regulatory solvency capital over and above free reserves and will form an additional safeguard against any future requirement to increase solvency capital. The Club currently meets its objective of having at all times sufficient capital to meet its solvency requirements as agreed between the Club and the Financial Services Authority.

Hybrid capital

This is the first issue of hybrid capital by a mutual P&I club, but this form of capital is common in the wider insurance industry. The Society of Lloyd's in June 2007 issued £500m of callable, perpetual, Tier 1 subordinated debt with a coupon of 7.421% callable after 10 years.

Hybrid capital is capital that is structured as debt but has many features common with equity.

Just as hybrid capital has been issued by many insurance companies to bolster their solvency position without diluting shareholders' interests, the Club's hybrid capital will augment the Club's solvency position without diluting Members' interests.

The Issue

The Club intends to issue around \$100 million of Capital Securities and application will be made to the FSA for the Capital Securities to be admitted to the official list of the London Stock Exchange.

The term of the Capital Securities will be perpetual with the Club having the right to repay the issue from the fifth anniversary of issue. The Capital Securities will be subordinated to all other creditors.

The Capital Securities will have a fixed coupon of 9% during the first five years. After the fifth anniversary of issue the interest rate becomes a floating rate with a pre-determined spread and after the tenth anniversary a step-up of 1% will be added to this pre-determined spread. The pre-determined spread will be the difference between the fixed rate coupon and the five year mid-swap rate.

The Club has already secured commitments from a small number of Members approached as part of a pre-marketing process. The Board recognised that many Members with a good understanding of the Club and its particular credit characteristics might well find the Club's hybrid capital an attractive investment opportunity and therefore decided that Members who are legally permitted to do so would be given the opportunity to invest.

Standard & Poor's is expected to assign a BBB+ rating to the capital securities.

UBS Investment Bank is Lead Manager, Bookrunner and Structuring Advisor.

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Notes to editors

UK P&I Club

The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited is generally known as the UK P&I Club. As a mutual association, the UK P&I Club has no outside shareholders and no financial links with other organisations. Since its establishment in 1869 the Club exists solely for the benefit of its Members. The Club's structure as a mutual insurance association enables the Club to be uniquely responsive to the changing needs of its assureds and allows it to provide superior service, attention and coverage to those Members.

In keeping with its organisation as a mutual association, the UK P&I Club is directed by the members themselves. Overall control of the Club lies with the Directors, who are elected by the Clubs' Members from amongst themselves. The Directors normally meet four times a year to formulate policy on calls, the scope of cover, finance, underwriting and claims matters, reinsurance and current industry issues affecting the P&I world. They resolve specific claims which may not fall clearly within the cover.

Thomas Miller, the Club's Managers have most frequent contact with the Club's Members. They take pride in their ability to respond promptly to requests for assistance and to provide informed advice and sympathetic help with Members' claims. The level of individual support offered goes far beyond what you might normally expect from a commercial insurer.

The size of the UK Club and the corresponding scale of its Managers' operation has permitted the development of specialist skills and expertise to a level of sophistication seldom seen in the P&I field.

In 350 ports of the world, on-the-spot help and local expertise is always available to Members, and to the masters of their ships, from the Club's 460 correspondents. The network includes regional offices of the managers in New Jersey and Hong Kong as well as London. The office in New Jersey handles claims arising in the US east coast and Canada, while the offices in San Francisco covers part of North and Central America, Mexico and the Caribbean. These offices also support the many claims handled by other US correspondents. In addition the managers have offices in Piraeus, Tokyo (a branch owned by the Club), Beijing, Shanghai (both representative offices) and Singapore.

Thomas Miller

The Thomas Miller Group manages a number of world-leading mutual insurance organisations ("clubs") providing insurance for shipping, transport and professional indemnity risks.

Thomas Miller also manages captive insurance companies in the Isle of Man and Bermuda; provides risk management consultancy services; and (through its regulated specialist subsidiaries) delivers a full investment management service to mutual clubs, captives and other clients.

Previously a group of partnerships, the firm incorporated in 1999, and is now owned and controlled by its employees. Thomas Miller employs over 550 people worldwide and has offices in four continents.

EU Solvency II Directive

Solvency II is the proposed updated set of regulatory requirements for insurance firms that operate in the European Union.

The rationale for European Union insurance legislation is to facilitate the development of a Single Market in insurance services in Europe, whilst at the same time securing an adequate level of consumer protection. Often called "Basel for insurers," Solvency II is somewhat similar to the banking regulations of Basel II.