

CLAIM NO 5279 OF 2012
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

**IN THE MATTER OF PART VII OF THE FINANCIAL SERVICES AND MARKETS
ACT 2000**

AND IN THE MATTER OF:

- (1) THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION
(BERMUDA) LIMITED**
- (2) THE UNITED KINGDOM MUTUAL STEAM SHIP ASSURANCE ASSOCIATION
(EUROPE) LIMITED**

**SUMMARY STATEMENT OF THE
TERMS OF THE SCHEME AND
SUMMARY OF THE SCHEME REPORT**

SUMMARY OF THE TERMS OF THE SCHEME

1. The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited (**'UKB'**) is a mutual insurance company incorporated under the laws of Bermuda, which is authorised by the Financial Services Authority (**'FSA'**) to effect and carry out contracts of general insurance in the United Kingdom.
2. The United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited (**'UKE'**) is a mutual insurance company incorporated under the laws of England and Wales, authorised by the FSA to effect and carry out contracts of general insurance in the United Kingdom. UKB is the sole member of UKE and together they are referred to herein as (the **'Club'**).
3. UKB and UKE have entered into a scheme for the transfer of the insurance business written by UKB to UKE (the **'Scheme'**). The Scheme requires the approval of the High Court of Justice in England (the **'Court'**).
4. The Scheme will result in the transfer from UKB to UKE of the insurance and reinsurance business carried on by UKB at 20 February 2013, including all activities carried on by UKB or Thomas Miller (being the Club's managers) in connection with or for the purposes of such business (the **'Transferred Business'**). Policies issued by UKB's branches in Hong Kong, Singapore or Japan are excluded from the Scheme. UKE will assume all rights and obligations under any policies of insurance which remain unsatisfied or outstanding which have been issued by UKB other than those policies which are excluded from the Scheme.
5. The Scheme will also result in the transfer of the assets of UKB to UKE (including rights under or by virtue of policies of insurance and reinsurance which are transferring under the Scheme), save where these are excluded from the Scheme. Such excluded assets include the assets of UKB's branch in Japan and UKB's membership of UKE.
6. The rights, benefits, powers and claims of UKB under any of the transferred policies or reinsurances will transfer to UKE pursuant to the Scheme.
7. The liabilities and obligations of UKB under policies of insurance and reinsurance which are transferring under the Scheme will also transfer to UKE. In addition, all other liabilities attributable to the Transferred Business will transfer to UKE save where they

relate to excluded assets or where those liabilities have otherwise been excluded from the terms of the Scheme.

8. References to UKB in any contract of insurance or reinsurance transferring under the Scheme shall be read as references to UKE.
9. All legal proceedings relating to the policies of insurance or reinsurance which are transferring under the Scheme or which otherwise relate to the Transferred Business which are pending at, or are commenced after, the effective date of the Scheme will be continued or commenced by or against UKE, and UKE shall be entitled to the same defences, claims, counterclaims and rights of set-off that would have been available to UKB.
10. Any premium and calls payable under a contract of insurance transferring under the Scheme will become payable to UKE and any mandate or other instruction in force on the effective date and providing for the payment by a banker or other intermediary of such premiums and calls shall take effect as if it had provided for and authorised such payment to UKE.
11. In addition to the Scheme, a scheme of arrangement is being carried out in Bermuda under Bermuda Company law for the purpose of transferring insurance creditors of UKB to UKE (the '**Scheme of Arrangement**').
12. Subject to the approval of the Court at a hearing due to be held on 30 October 2012 and conditional upon the Scheme of Arrangement having been sanctioned by the Bermuda court (following the approval of the Scheme of Arrangement at a scheme meeting) and the order of the Bermuda court having been delivered to the Bermuda registrar of companies, the Scheme is expected to come into effect at noon GMT on 20 February 2013.

SUMMARY OF THE SCHEME REPORT

1. Michael Barkham of Ernst and Young LLP (the **‘Independent Expert’**) has been appointed to act as an independent expert to prepare a report (the **‘Scheme Report’**) in respect of the Scheme. His appointment has been approved by the Financial Services Authority in accordance with section 109 of the Financial Services and Markets Act 2000 (**‘FSMA’**).
2. Set out below is a brief summary of the Scheme Report which has been prepared by the Independent Expert. This summary does not cover all matters dealt with in the Scheme Report, which should be read in full by anyone wishing to have a detailed understanding of its content.

‘Introduction

The proposed Part VII Transfer (the **‘Transfer’**) involves the transfer of the insurance business of The United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Ltd (**‘UKB’**), excluding its Japan, Hong Kong and Singapore branch businesses, to The United Kingdom Mutual Steam Ship Assurance Association (Europe) Ltd (**‘UKE’**). UKB and UKE act as one association, trading under the name of the UK P&I Club (the **‘Club’**).

The Transfer is part of a wider reorganisation of the Club (the **‘Reorganisation’**), which is intended to transfer all of the insurance and reinsurance business of UKB to UKE, and to establish UKB as the Club’s internal reinsurer, providing a 90% quota share reinsurance to UKE.

Section 109 of the Financial Services and Markets Act 2000 (**‘FSMA’**) requires that an application in respect of a proposed insurance business transfer be accompanied by a report from a suitably qualified person (the **‘Independent Expert’**) on the proposed terms of that transfer. This document is a summary of that full report (the **‘Report’**) on the Transfer but should not replace a full reading of the Report as, taken in isolation, it could be misleading.

The Report complies with the applicable rules on expert evidence and with the guidance for such reports set out in Chapter 18 of the FSA Supervision Handbook. The

form of the Report has been approved by the FSA in accordance with Section 109 of FSMA and in the context of the Transfer.

This summary and the Report have been prepared solely for the purposes of the FSMA requirements in the context of the Transfer. This summary is subject to the same limitations as those set out in the Report, and in the event of any real or perceived conflict between this summary and the Report, the Report shall prevail.

About the Independent Expert

I, Michael Barkham, am a partner in the European Actuarial Services practice of Ernst & Young LLP, a global leader in assurance, tax, transaction and advisory services. I am a Fellow of the Institute of Actuaries and a Fellow of the Society of Actuaries in Ireland, and have over 20 years' experience in the general insurance industry. I have been nominated by UKB to act as the Independent Expert for the Transfer; this nomination has been approved by the Financial Services Authority ('FSA').

What is the purpose of the Transfer?

The purpose of the Reorganisation (including the Transfer) is to reduce from two to one the number of entities in the Club that will be subject to the forthcoming Solvency II regime in the European Union. The simplification of the Club's structure is also anticipated to lead to cost savings.

Who will be affected by the Transfer?

The Transfer will affect all policyholders of UKB and all policyholders of UKE. The specific groups of policyholders I have considered are:

- Policyholders of UKB who will transfer to UKE as part of the Transfer (the '**Transferring Policyholders**')
- Policyholders of UKE
- Policyholders of UKB other than those who will transfer to UKE as part of the Transfer (i.e., those who are intended to transfer to UKE via other parts of the Reorganisation)

Will the Transfer affect the levels of service provided to policyholders?

I have considered the effect of the Transfer on levels of service and administration provided to each affected group of policyholders.

UKB and UKE currently act as one association and there is no difference in the level of service provided to policyholders of either company or in the administrative practices within each company.

I therefore consider that there is no reason to expect any significant changes either to the levels of service provided to any group of policyholders or to the administration of any group of policies as a result of the Transfer.

Will the Transfer affect the security of policyholders?

I have considered the impact of the Transfer (and the wider Reorganisation) on the security of each affected group of policyholders.

An important part of my consideration has been the existence of a Deed of Capitalisation and Guarantee (the ‘**Guarantee**’) between UKB and UKE, in which UKB guarantees to meet the liabilities of UKE in the event UKE is unable to do so. The Guarantee will remain in place following the Reorganisation.

I consider that the level of security provided to each group of policyholders will not be materially adversely impacted by the Transfer or other elements of the Reorganisation. The key points I have considered are:

- The total amount of assets available to the Club to meet policyholder claims will not change as a result of the Reorganisation.
- I believe that there is full fungibility of assets in the Club before the Reorganisation, and this will not change after the Reorganisation (i.e., the assets of one part of the Club can be used, if required, to meet liabilities in another part of the Club).
- The ‘chain of security’ before and after the Reorganisation is substantially the same for all policyholders (i.e., the order in which the assets of the Club can be used to make a claim payment to policyholders will not materially change).

- Within the rules of UKB and UKE, the Boards can, if necessary, levy calls on the mutual policyholders of the Club, this provides for additional protection to the individual ship owners that will be unchanged by the Reorganisation.

Hence I conclude that there would be no material change to the security provided to any affected group of policyholders.

What if the Transfer proceeds but another part of the Reorganisation does not?

The Transfer is one of five elements of the Reorganisation that is subject to external approval before it can proceed. The other elements which are subject to external approval (by regulators or by courts) are:

- The transfer of the business of the Hong Kong branch of UKB to UKE (the **‘Hong Kong Transfer’**)
- The transfer of the business of the Japanese branch of UKB to UKE (the **‘Japanese Transfer’**)
- The transfer of the business of the Singapore branch of UKB to UKE (the **‘Singapore Transfer’**)
- A scheme of arrangement in Bermuda to transfer the policyholder creditors of UKB to UKE (the **‘Bermudan Scheme’**)

It is intended that these transactions should all take place on the same date, however there is some risk that they will not.

In the event that one or more of the Hong Kong Transfer, the Japanese Transfer or the Singapore Transfer are not effected by the transfer date, I do not consider that there would be any material impact on either the pre-Transfer policyholders of UKE or on the Transferring Policyholders, as the Hong Kong, Japanese and Singapore branches of UKB are small compared to the remaining business of UKB.

In this case, a new class of policyholders would be created (those policyholders remaining in UKB). I do not consider that these policyholders would be materially disadvantaged by the Transfer as the financial position of UKB in terms of assets to

cover its liabilities will remain strong after the Transfer, especially considering the fungibility of assets within the Club.

If the Bermudan Scheme does not proceed, then the Transfer will not proceed (i.e., the Transfer is conditional upon the Bermudan Scheme). In this situation, policyholders would be in the same situation as if the Transfer had not been proposed.

Because the Club is administered as a single entity, I also consider that there is no reason to believe the level of service and administration provided to any group of policyholders would vary from that provided to any other group of policyholders should one or more elements of the Reorganisation fail to proceed.

For the above reasons I conclude that the failure of any other part of the Reorganisation to proceed would not have any material adverse impact on any group of policyholders.

Will the reinsurance arrangements of the companies involved change after the Transfer?

All of the outwards reinsurance protections held by UKB in respect of the transferring business are intended to transfer with the corresponding liabilities to UKE. Therefore I do not believe that the current or future reinsurance arrangements have any impact on the Transfer.

Overall conclusion

I have considered the Transfer and its likely effects on the policyholders of UKB and UKE. I conclude that there would be no material change to the security provided to policyholders and that no group of policyholders would be adversely affected to a material extent by the Transfer, and that therefore the risk of any group of policyholders being adversely affected by the Transfer is sufficiently remote that there is no reason why the Transfer should not proceed.

I will provide an update letter identifying any issues that arise between the date of the Report and the final court hearing, and any impact these have on my conclusion, prior to the date of the final court hearing, which is expected to take place on 30 October 2012.

A copy of the Report and the update letter will be made available to download from <http://www.ukpandi.com/about-the-club/club-restructure/> and/or can be requested by contacting John McPhail in writing at Thomas Miller, 90 Fenchurch Street, London EC3M 4ST.

Michael Barkham
Fellow of the Institute and Faculty of Actuaries”

No 5279 of 2012

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SERVICES AND MARKETS ACT 2000**

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-and-

**THE UNITED KINGDOM MUTUAL STEAM
SHIP ASSURANCE ASSOCIATION
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**SUMMARY OF INSURANCE
BUSINESS TRANSFER SCHEME**

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Ref: PMT/KJG/748680.00965