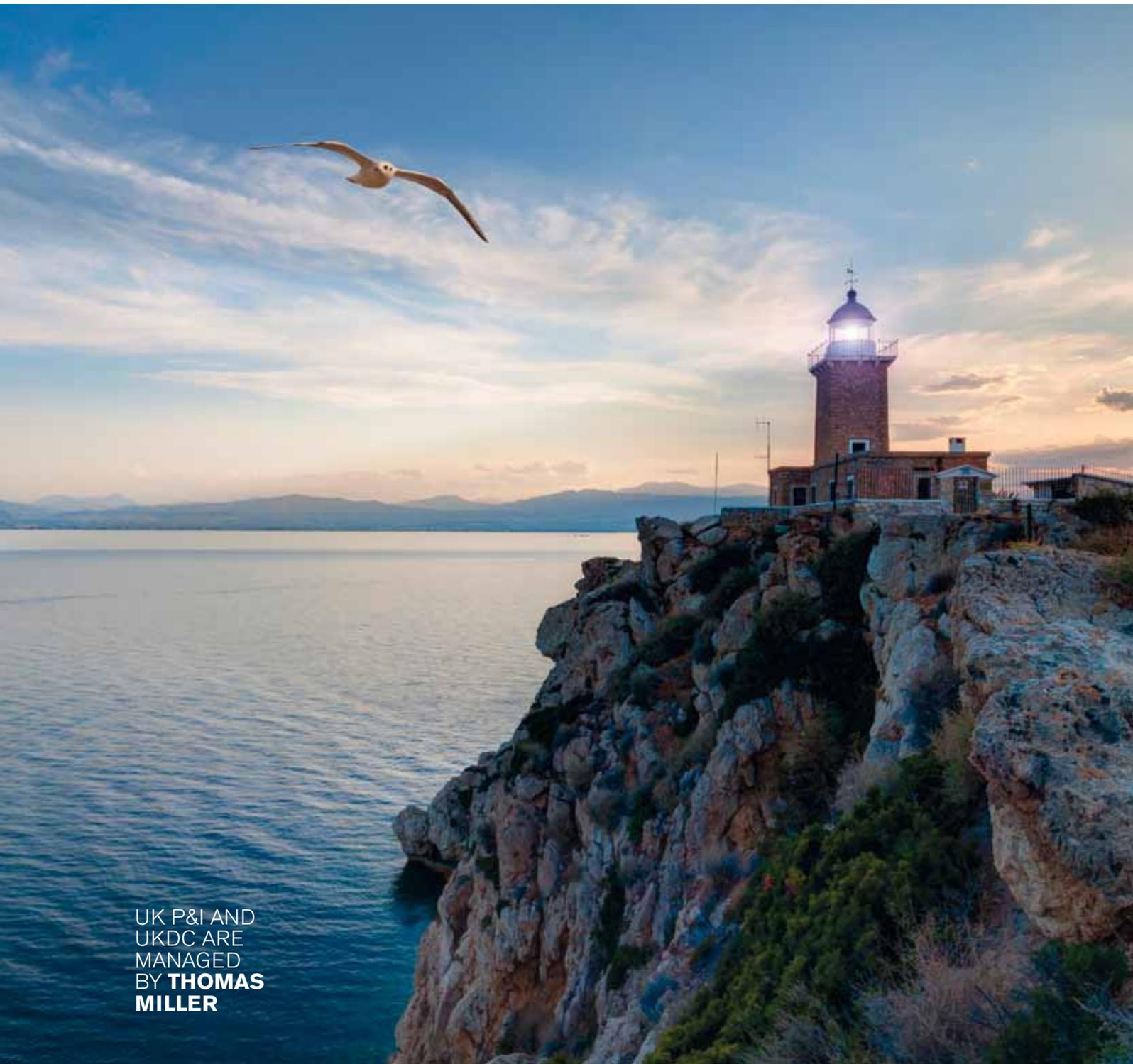


Hellas HiLights

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The UK P&I Club has successfully rebuilt its capital position

For the year ended 20th February, 2012 the Club achieved another operating surplus and a further increase in the free reserves and capital to an all-time high of \$486 million. A combined ratio of 97%, reflecting both improved underwriting discipline and prudent claims reserving, was key to this surplus together with a positive investment return of \$18.6 million.

The Club's financial strength continues to be one of the strongest in the International Group with \$1.6 billion in total assets and a free reserve and capital ratio of 162%.

Lower Claims

The improving claims position on all policy years since 2008 has been largely brought about by a reduction in the number of claims. Claims on the 2011 policy year were down 5% on 2010, itself a low year for the number of claims, and some 30% lower than the number of claims in 2007. Most significantly, the Club's exposure to the larger claims (those exceeding \$2 million) was below the experience of recent years. The total cost of larger claims retained by the Club in 2011 was approximately 15% of the historical average.

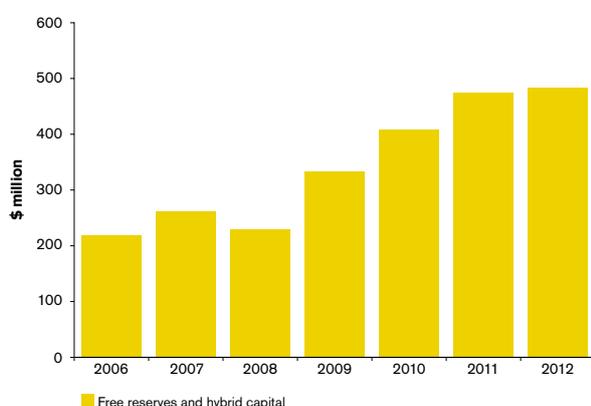
UK P&I Club Chairman, Dino Caroussis, commented:

“Overall the Club produced a surplus of \$11 million. The main driver behind this positive outcome was the continuing improvement in the claims reserves on the most recent policy years and the early indications that 2011 will be a low claims year”.

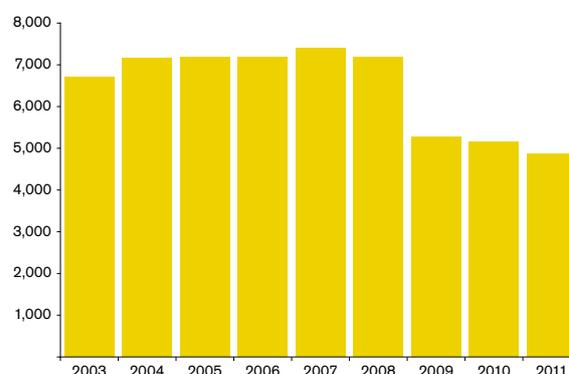
Controlled Growth

The Club's return to the top level of the P&I market has been rewarded by increased support from new and existing Members. During 2011 the Club took on a steady stream of new tonnage and this was followed by an encouraging 2012 renewal, which was one of the most successful in recent years. Tonnage was up over the year and now stands at 112 million gross tons of owned tonnage and around 80 million gross tons of chartered tonnage. 2011 was also another year of higher than usual turnover of tonnage at around 20% of the total owned tonnage. This reflects the increased demolition of older ships on the one hand and a high number of new buildings on the other.

Capital & reserves for financial years 2006 - 2012



Number of claims at 12 months by policy year



The Club's return to the top level of the P&I market has been rewarded by increased support from new and existing Members.





The UK P&I Club has successfully rebuilt its capital position (continued)

Balanced Underwriting

The growth in the Club's tonnage has not been at the expense of quality. In achieving a steady and balanced growth in tonnage the Club has maintained underwriting discipline and continued to decline business which does not come up to the required standard.

This was the second successive financial year that the Club achieved a balanced underwriting result with a combined ratio of 97%. This very positive result underlines the Club's commitment to its long term target of maintaining a combined ratio of 100% or better.

Review of the Year

A comprehensive presentation of the UK P&I Club finances can be found in the recently published "Review of the Year 2012". This sixteen page guide gives detailed analysis of the Club's underwriting, claims, risk & capital management, investment and service performance over the past year. Copies can be obtained from the Thomas Miller (Hellas) office or alternatively download from the UK Club website (www.ukpandi.com).

Highlights

- Total assets of \$1.6 billion
- The free reserve capital ratio of 162% (159% in 2011) is one of the strongest ratios in the International Group
- Capital and free reserves of \$4.33 per gross ton
- Combined ratio of 97%
- Free reserves and capital increased to \$486 million from \$478 million
- Investment return of \$18.6 million
- Claims on the 2011 policy year were down 5% on 2010
- Long term increase in the average cost of P&I claims running at about 5% but with some categories of claims inflating at rates of up to 15%
- 2011 was a good Pool year for the Club
- Club well prepared for Solvency 2
- Strong focus on risk management and corporate governance

Events

Broker Evening

On the evening of Wednesday 16th May 2012, for the third year in succession, brokers in the Greek marine insurance community joined staff from Thomas Miller (Hellas) Ltd and colleagues from Thomas Miller P&I and Defence in London for sunset cocktails and a buffet supper at the fashionable Piraeus Sailing Club in Mikrolimano.

Situated at the end of the Mikrolimano harbour, the Club's Members' area provides a panoramic view of the Saronic Gulf, the Athenian shoreline and beyond. Without straining too hard you could even make out the white marble Parthenon just below the city skyline. Against that backdrop, Thomas Miller P&I Chief Executive Officer, Hugo Wynn-Williams, thanked the brokers for their support and provided a brief update on the excellent financial, claims and other developments at the UK P&I Club.

The UK P&I Club Chairman, Dino Caroussis, spoke on the Directors' behalf in endorsing the Club's improved position before expressing his own personal concern at the contrasting situation in which Greece currently finds itself. With near-perfect weather and the recent positive sentiment enjoyed by the UK P&I Club in the market, the event proved to be a well attended opportunity for our broker friends to share in our improving fortunes and mix socially with the full Greek service team.







Thomas Miller (Hellas) Ltd

Office Refurbishment

Thomas Miller (Hellas) Ltd. moved to its current location at 93 Akti Miaouli in April, 2000 and, after more than a decade of use, the office was in need of an upgrade. Planning the refurbishment began in 2011 with the program beginning in earnest on 30th January, 2012.

Phase 1 of the project involved putting up a temporary wall so that work could begin on the main part of the office whilst at the same time another part of the office remained open but with a reduced number of desks. The reduced capacity was catered for by arranging for some of the team to work in the office with others working remotely from home. Temporary attendance at the office was scheduled on a rota basis so that we were able to work from the office as frequently as possible.

The refurbishment included redesigning the entrance to the office with smart signage and replacement doors; removal and replacement of the existing flooring; demolition of the old suspended ceiling and replacement with a new one incorporating a new lighting system with fluorescent and halogen spotlights; a new air handling system in the ceiling; electrical rewiring and a new IT network and up-grading of equipment in the computer room; refurbishment of the balcony including cladding the balustrade wall; fitting replacement air conditioning units; the fitting of steel/glass partitions to separate conference rooms; refurbishment of the toilets and replacement of the roller blinds. In addition

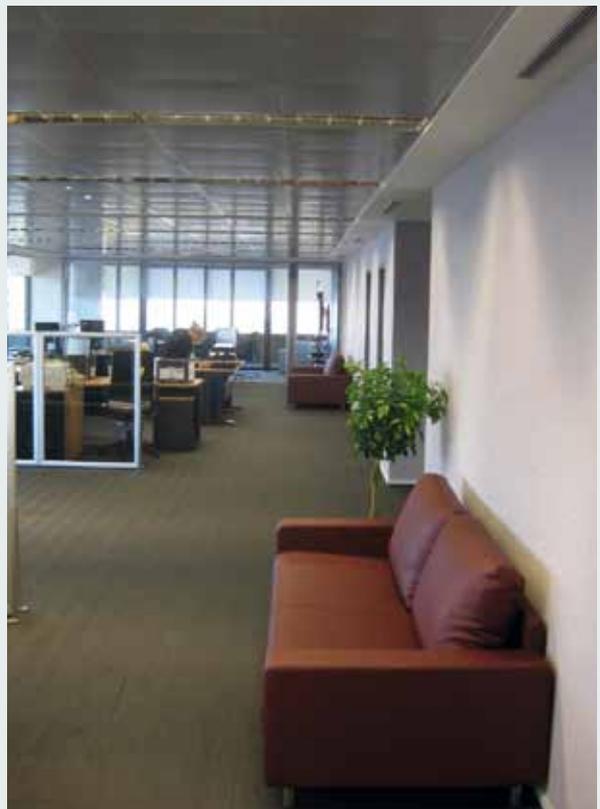
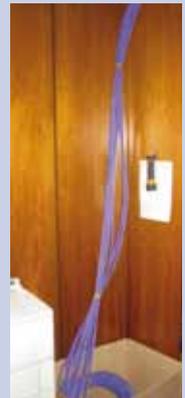
the modified layout of the office has resulted in our having larger more modern seminar and meeting facilities.

Refurbishment of the major part of the office was completed by Easter and the temporary desk rotation came to an end with the full H1 team back in the office by 17th April, 2012. In the meantime, work on Phase 2, the smaller area of the office that had continued to functioning during Phase 1, continued.

Apart from a few small jobs work was completed by the end of May and those of you who attended our open office party on 7th June will have seen the modified layout and our new facilities first hand. For those of you who haven't yet seen the office then please do call round for a coffee or, in due course, attend a lecture in our new seminar room.

Maintaining a fully-functioning claims office in Piraeus has, for over 15 years, been a key component in offering direct and dedicated service to our P&I and Defence Members here in Greece. This office improvement further underlines our commitment to providing the highest level of service to our Membership here in Greece.







Posidonia Open Day

Despite taking place on the Thursday afternoon after several draining days (and nights!) of a warm Posidonia week, we were particularly heartened by the demonstration of support shown this year from the 600 Members, brokers and others in the industry who came to see us.

Father Prodomos from St Nicholas Church began proceedings with an Orthodox blessing, at which mostly staff attended, before the space gradually filled with all manner of familiar folk. But the beauty of an open day is that there are always some surprise visitors and even “mystery guests”. All are welcome and everyone fits in. Thus, it was great to have LMAA Arbitrators mixing with bunker brokers, surveyors chatting with underwriters, brokers and Members meeting each other for the first time, non-members coming to say “hi” and, believe it or not, even the odd lawyer dropping in to keep us amused. And at the heart of the event was Anna Lagos who deserves a special “thank you” for her tireless effort in putting it all together and for looking after us all so splendidly yet again.

This year’s event, marking the opening of the newly-refurbished office, was a record-breaking success. More visitors came than ever before. An unprecedented 2,200 sushi pieces and 2,200 duck rolls were consumed and the frozen mint daiquiris and margaritas clearly went down well with those looking for a cool cocktail to fend off the high temperatures. Oh, and for anyone wondering about the state of the innovative office flooring, you’ll be pleased to hear that after a thorough clean it looks brand new again!

For anyone who missed the Open Day, here are a few photos to give you a flavour of the occasion. Of course, if you would like to drop by and see us anytime please feel free to speak with your usual Thomas Miller contact.



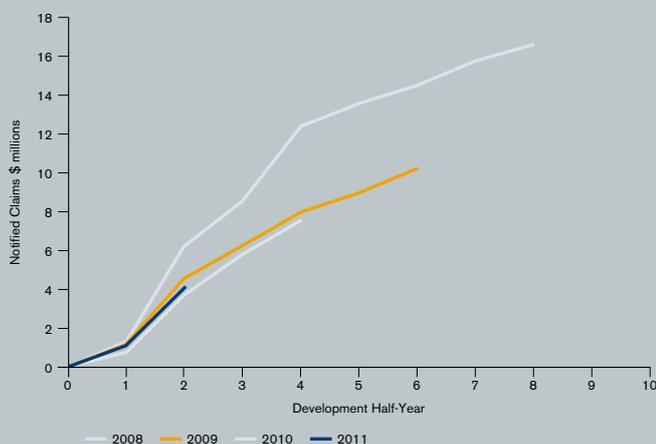


Making a difference to Members

Claims

Net Notified Claims Development

(All claims)



Claims development

The year to 20th February, 2012 was an extremely busy but positive one for the Association in a number of respects. Following on from the heightened claims environment experienced in 2008-2010 there was some uncertainty as to how claims might develop in 2011 however, whilst claim numbers remained at a relatively high level, the cost of those claims reduced somewhat from those seen in 2008 and 2009.

The recent years' claims development is no surprise given the market circumstances that arose in 2008. Some of the impact of this is still being felt today with disputes occurring on contracts agreed before 2008 when the market was very different. In some of these cases the contracts have been renegotiated however in other cases disputes have arisen. In numerous cases these claims run in to many millions of dollars and consequently the costs of resolving the disputes increased proportionately. The average cost of claims has shown a marked rise over the last few years. Part of this is down to legal cost inflation however some of it was also caused by front loading of costs at an early stage in the development of cases. However, if costs are being incurred much earlier it should also mean that there will be a much shorter tail.

Another factor that has influenced the increase in costs is that many more disputes are being arbitrated or litigated. Over the past year the Association has been involved in a considerable number of cases that went to arbitration or some form of litigation. Why is this? One explanation is that the legal issues involved require a final determination. This of course has always been the case however it is clear that in a number of cases commonly understood legal boundaries are being reviewed and are being challenged. It has always been one of the hallmarks of English common law that it continues to develop and adapt to changing circumstances.

RAINY SKY

One of the most significant cases that the Association has been involved in during the last year relates to the RAINY SKY. It concerned a \$46.2 million dispute between the buyer Member and the guarantor bank under a shipbuilding contract as to whether refund guarantees should respond to the insolvency of the shipyard. In a unanimous judgment, overturning that of the Court of Appeal, the Supreme Court held that business common sense was key in the interpretation of commercial contracts and that the refund guarantees should respond to the insolvency of the shipyard.

The Association was privileged to have been able to support the Member throughout this landmark case which is a further testament to the role, albeit an understated one, that the Association has historically played in shaping English maritime law. The RAINY SKY will undoubtedly be referred to for many years to come. It should also be remembered that the Member was able to recover its \$46.2 million along with interest and costs. Without question this case epitomises what the Association stands for.

The cost of defaulting counterparties

The Association has of course been involved in many cases over the year and time charter disputes and enquiries continue to dominate as they have done in previous years.



A key feature in recent claims development has been the impact of counterparty risk issues. This is of course nothing new however the pressure of freight rates is undoubtedly placing considerable pressure on certain operators with longer term commitments at rates in excess of the current market. In the policy years 2008-2011 a total of 150 cases were identified as relating to “defaulting operators”. In financial terms the overall cost of such cases opened in policy years 2008-2011 is currently estimated to be in the region of \$4.8 million.

Looking forward, the prevailing market conditions suggest that there are likely to be more operators who will suffer financial difficulties of one sort or another. From the Association’s perspective, the experience that it has gained in this area in recent years means that it is very well placed to support Members in dealing with defaulting counterparties, whether through negotiation or by taking legal steps to protect their position.

The management of legal costs

As the leading provider of legal costs insurance to the maritime industry the Association is understandably focused on the management and control of costs. The Managers’ Value for Money (“VfM”) initiative was introduced to ensure “best practice” was applied to claims handling services, both by the Managers and by third party suppliers. A natural consequence of this has been identifying the cost effectiveness of those services and this, combined with the application of VfM guidelines aimed at achieving the “most appropriate outcome” in all cases, has assisted the Association in controlling costs at a crucial time.

What has however given some cause for concern over the last year is the inadequacy of various cost estimates. The importance of accurate estimating was highlighted in a case before the Supreme Court in 2007 (*Mastercigars Direct Ltd v Withers*) which was summarised in a Soundings publication in 2011, where it was held that a firm of solicitors was bound by a cost estimate provided to its client.

The Managers will shortly be writing to third party suppliers emphasising the need for accurate estimating and the reliance that is placed by the Board and the Managers on the estimates that are given. The Managers will also be exploring fixed fee agreements with a number of firms.

Cost recoveries

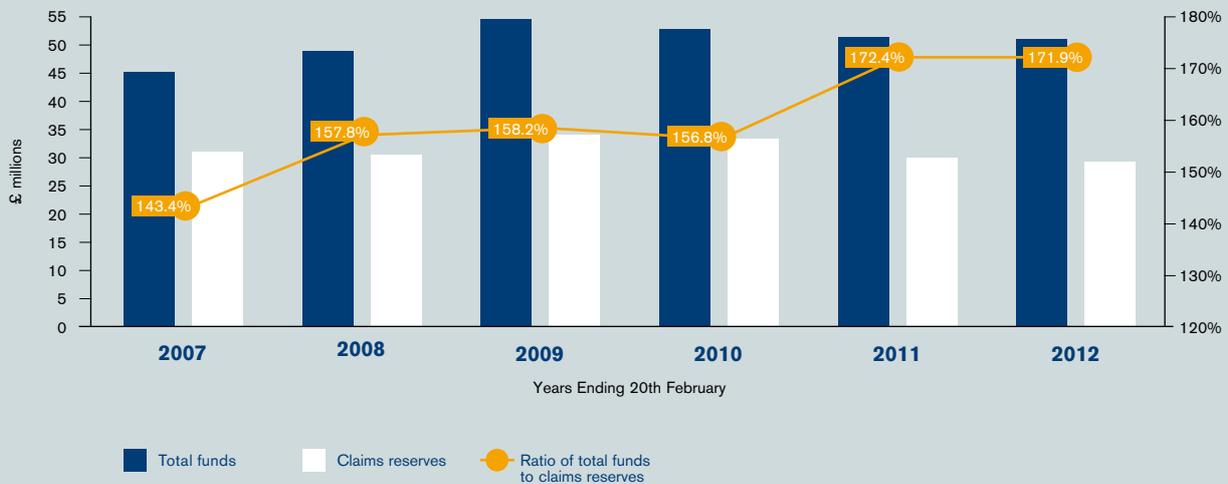
In the 2011 policy year the Association has made significant cost recoveries totalling \$3.5 million where Members have been successful in progressing their claims. The Directors considered 35 major cases during the year, in addition to which the Managers considered a substantial number of requests for support under the authority delegated to them by the Board. Of all the cases formally considered by the Board or the Managers some 98% received a significant measure of support from the Association, illustrating the importance attached by both the Board and the Managers to the Association being supportive of its Members whenever appropriate.

In terms of cost liabilities, historically there has been an assumption that the losing party in US litigation or arbitration is unlikely to attract a cost liability. In 2011 the Association was involved in a significant dispute subject to New York arbitration. Unexpectedly, the tribunal found against the Member but perhaps more surprisingly it awarded the other party a significant cost recovery. This appears an increasing trend in New York arbitrations.

Looking forward

It is without question that 2012 will be a challenging period for Members however the Association and its cover is here to make a difference whenever it can.

Total Funds & Claims Reserves



The UK Defence Club reinsures its past and present risks on a quota share basis with the UK Defence Insurance Association (Isle of Man) Ltd ("UKDIA"). Members of the UK Defence Club are also Members of UKDIA.

The table set out below presents the results and reserves of the Club and its quota share reinsurer for the financial year ending 20th February, 2012 on a combined basis. The financial highlights for the year are as follows:

- Premium income fell by 7% to £16.5m in 2011/12, largely due to the weakening of the US dollar against Sterling in the early part of the year compared with 2010/11. In US dollar terms premiums declined by 2% as a result of a drop in chartered entries.
- Net claims incurred, including the change in provisions, were £15.3m, up from £11.4m in 2010/11. 2011 policy year claims with costs incurred rose by 23% compared with the previous year as a result of the continued difficult trading conditions for Members, though average claim values fell by 9%. There was also a £0.4m deterioration in prior policy years' claims reserves.
- Investment return totalled £2.2 million, equating to 4.6%, and was assisted by the strong performance of equity markets in the last quarter of the year. In addition, there were net exchange gains of £0.5 million resulting from the hedging of premium income and the strengthening of the US dollar against Sterling in the second half of the year.
- The net result for the year was a small deficit of £0.2 million, leaving free reserves at £21.5m.
- The Club continues to have a strong balance sheet with assets of £51.4m and a ratio of assets to liabilities of 172%.

Year ended 20th February	2012 £'000	2011 £'000
Income and Expenditure Account		
Calls and premiums	16,479	17,672
Reinsurance premiums	(367)	(386)
	16,112	17,286
Net claims incurred	(15,325)	(11,365)
Acquisition costs	(2,131)	(2,132)
Net operating expenses	(1,503)	(1,552)
	(18,959)	(15,049)
Operating surplus/(deficit)	(2,847)	2,237
Investment return	2,158	1,155
Exchange gains/(losses)	528	(694)
Surplus/(deficit) before taxation	(161)	2,698
Taxation	-	-
Surplus/(deficit) after taxation	(161)	2,698
Reserves and Capital		
Total funds	51,434	51,623
Claims reserves	(29,920)	(29,948)
Free reserves and capital	21,514	21,675
Total funds/claims reserves	171.9%	172.4%

Kempton Park Race Evening

Kempton Park racecourse was the setting for the UK P&I and UK Defence Clubs' latest Member event. On a warm and somewhat humid evening, the Clubs were delighted to host an evening of racing at Kempton Park on 27th June, 2012. The course was beautiful and lush following all the recent rain, but the evening's racing was to be run on the all weather track so there was no risk of wet conditions curtailing the evening's fun, and in any event fortune favoured us by staying dry.

A selection of UK based Members joined us in the Royal Box, which had been specifically reserved for the evening. The Box had a fantastic view of the course and was level with the finishing post, which enabled us to be in the prime position to see which of 'our' horses had won or lost by a head. A hot and cold buffet was served so all were able to enjoy a glass of wine and some food in the comfort of the box whilst being able to keep a keen eye on the action.

Although most people had a little flutter along the way, it was decided that to spice things up even more there

should be a competition to see who could pick the most winners. In each of the first four races everyone was asked to put their faith in a horse. If that horse came first, three points would be awarded, if it came second then two points would be awarded and if it came third then one point would be awarded. Whoever had the most points at the end of the night would be declared the winner.

It was clear who the experts were as the prize was shared by UK P&I Club Director Grahaeme Henderson of Shell and Paul Vogt of Vogt & Maguire. Paul Vogt, a keen racehorse owner, also had a horse running in race number six.

As the light began to fade, the last race was run which gave everyone the chance to spend some of their winnings (or indeed chase their losses) on one last bet, before people started to drift away. Money aside, there were no losers though, the winners were those who had enjoyed a fine evening's entertainment at Kempton Park as guests of the UK P&I and Defence Clubs.



UK P&I CLUB 

UKDC
UK DEFENCE CLUB

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