

CHAIRMAN'S STATEMENT 2014



This is my first Chairman's Statement having taken over from Dino Caroussis in October last year and I would like to begin by expressing my thanks to him on behalf of the Board and the Club for his outstanding contribution to the affairs of our Club.

When Dino took over the chair it was an extremely challenging time for the Club and its Members. During his tenure the Club has made huge strides towards its goal of becoming the leading shipowner controlled provider of P&I insurance. The strong results which we publish in these financial statements are a fitting testament to his leadership over the past five years.

A STRONG RESULT

This year the Club has increased its free reserves and capital by \$34 million. This takes the Club's total free reserves and hybrid capital to a new high of \$528 million, comprising the underlying free reserves of \$430 million and hybrid capital of \$98 million. The outcome reflects a sound underwriting result in the face of mounting claims costs during the 2013 policy year, and an investment return of 4.5% amounting to \$44 million.

The financial year combined ratio of 102% represents the fourth consecutive year of combined ratios close to 100%. As is noted in the Review of the Year, the financial year combined ratio is made up of a significant level of claims releases on older policy years, particularly the more recent years of 2011 and 2012. These releases have been driven by better than expected results on a number of major casualty claims. Combined with improvements on earlier policy years, this has enabled us to make significant releases while preserving the overall strength of the claims reserves. We must be mindful, however, not to be over confident. This year's result has been offset by higher claims in the 2013 policy year, which at the half year point looked to be one of the most expensive on record. Although the claims eased in the second half of the policy year, the currently projected claims ultimate for 2013 is the highest since 2007, which marked the height of the claims exposure during the shipping boom, and it is currently 25% higher than the average of the claims in the past 5 years. While the overall result for the year is encouraging, we must take care to ensure that our premiums continue to move forward in order to address the undoubted underlying inflation in P&I claims.

STANDARD & POOR'S

I am delighted to report that the Club's return to the top level of our industry, both in terms of capital and its underwriting discipline, has been recognised by Standard & Poor's in their decision to restore the Club's full "A (Stable)" rating. It is a very significant event for the Club, but we should not see this as an end in itself. Having restored the Club's financial position, we have now to make sure that we put a similar level of effort into maintaining our reputation for best in class service. During the

coming year we will be taking a hard look at all aspects of our service delivery to ensure that we have the right mix of skills in our offices around the world and the insurance products that our Members need to meet the demands placed on today's shipowners and charterers.

CAPITAL

In this year's Review of the Year we have included for the first time a section on capital. This provides an explanation of the approach we take to determine the capital required to meet the risks facing the Club. The current level of capital that the Club holds through a combination of the free reserves and the hybrid capital will enable us to meet the regulatory requirements imposed by the Solvency 2 Directive. Your Board is very aware that the Club should not hold excessive amounts of capital, particularly in the current commercial conditions facing all shipowners, and is aware of the need to strike the right balance between maintaining a strong capital position and remaining competitive. In 2012 we were able to make a small return of capital on the 2011 policy year. If the circumstances allow, particularly in the event of another strong underwriting year, I would hope that it would be possible to make a further return of capital in the future.

ANOTHER GOOD RENEWAL

The market's confidence in the Club, underpinned by its strong financial results, has produced another good renewal for the Club. Premium was increased by 7% after allowing for movement in tonnage, the impact of changes in terms, and the increase in the cost of reinsurance. There was also a healthy increase in the tonnage, which now stands at around 124 million gt, and commitments were made for a further 4 million gt to be delivered during 2014. The achievement of both increased premium and increased tonnage underlines our commitment to controlled growth at the right premium rating. 2013 was also a good year for the Club's charterers' tonnage which now stands at over 80 million gt and generates in excess of \$50 million in premium.

RISK MANAGEMENT AND REINSURANCE

The Club's own reinsurance programme has played an important part in managing claims volatility over the past two years. It has cushioned the impact of pool claims in the 2012 and 2013 policy years and the Club's own large claims experience in 2012, thereby making a significant contribution to the Club's overall financial result this year. I am pleased to report that during 2013 we have been able to renew all the Club's own reinsurances on favourable terms and this will give us a large measure of protection against a surge in the frequency and value of our claims. As my predecessor said last year, our own reinsurance programme is not a substitute for sound underwriting, but it will protect the Club from the impact of a sudden increase in claims.

Risk management is not limited to reinsurance. The UK Club has the most extensive loss prevention programme in the P&I industry. It ranges from production of brochures and pamphlets to an in-depth risk assessment system using our own tailored methodology. During last year, the UK Club's website was refreshed and access to the loss prevention section, which contains a wealth of continually updated information, greatly improved.

REGULATION

Last year the Chairman reported on the steps that had been taken by the Club to meet the requirements laid down by the Solvency 2 Directive. These included the development of our internal model and the restructuring of our group of Clubs. The UK (Europe) Club became the principal provider of insurance to UK Club Members at 20th February 2013, save for those insured by Asian branches of the UK (Bermuda) Club. During 2013, new branches of the UK (Europe) Club were licensed in Hong Kong, Japan, and Singapore, and with the transfers of business to these branches in 2014 the restructuring exercise will have been concluded.

INDUSTRY MATTERS

The Review of the Year provides the background to some of the key industry issues that were addressed by the Board during last year. These included the Maritime Labour Convention which entered into force in August 2013; the impact of expanded sanctions on Iran by the EU and US; and, most recently, the news that an International Group club had developed plans to issue directly to the US Coastguard the guarantees that are needed for vessels to obtain a COFR (Certificate of Financial Responsibility) when trading to US ports. This initiative is in conflict with the long-established policy of the International Group clubs to support the international convention system and to decline requests from individual states for anticipatory guarantees. Your Board strongly believes that the status quo should be maintained, as it has enabled the International Group successfully to argue, at state and regional level, that multiple new financial security burdens should not be imposed on shipowners.

GOVERNANCE

The revisions to the governance structure which we introduced last year are working well. The Board of UK (Europe) met seven times and the Board of UK (Bermuda) met three times. I would like to take this opportunity to thank my fellow directors and particularly those who serve on our key committees for the time they give to the Club's affairs. In particular I would like to thank the Deputy Chairmen, Eric André, Ottmar Gast, Nicholas Inglessis and Masamichi Morooka for their support and to Nigel Smith for his chairing of the Audit & Risk Committee. Over the year we have lost the services of four directors: Philippe Louis-Dreyfus, Agenor Junqueira, Jin Bang Lee and Adamantios Lemos in addition to Dino Caroussis who stood down from the Board at the end of his five year period as Chairman. I am grateful to all of them for the important contributions they have made to our deliberations over many years.

I am also delighted to welcome seven new directors: Sheikh Talal Khaled Al Ahmad Al Sabah, Angela Chao, Michael Fostiropoulos, Polys Hajioannou, Edouard Louis-Dreyfus, Paul Wogan and Riad Zein, who joined us during 2013 and I very much look forward to their contribution over the coming years.

IN CONCLUSION

I feel very privileged to have taken the chairmanship of the UK Club at a turning point in its fortunes. Over the past five years the Club has been able to rebuild its capital base, introduce discipline to its underwriting and improve its service proposition. It has moved significantly closer to achieving its goal of being the leading shipowner controlled P&I Club. I look forward to working with the Board and the Managers over the next five years and achieving that goal.

Alan Olivier
Chairman

