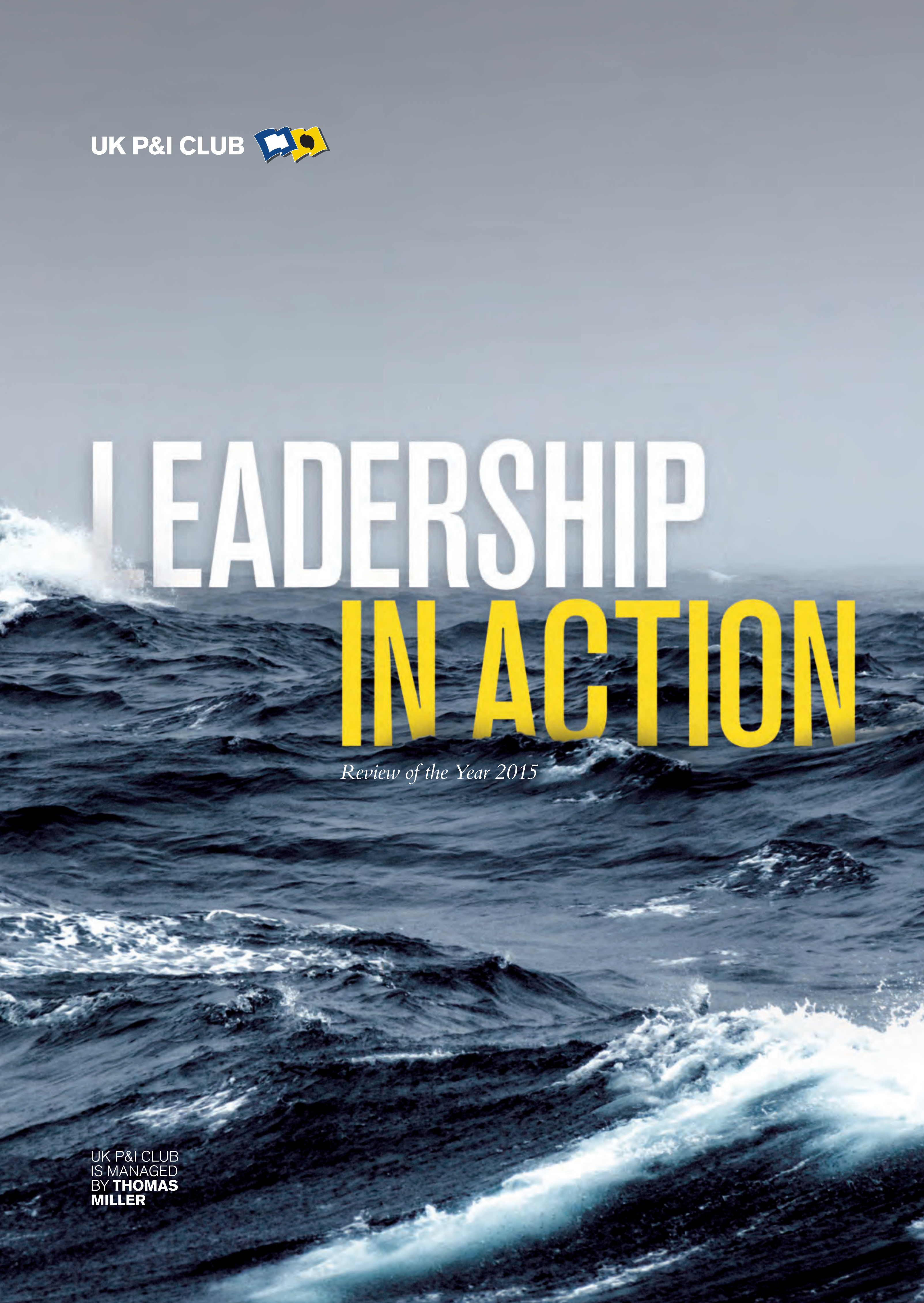
UK P&I CLUB

LEADERSHIP IN ACTION

Review of the Year 2015



UK P&I CLUB IS MANAGED BY **THOMAS MILLER**

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INTRODUCTION

2014 has been a year of significant progress for the Club. A commitment to disciplined underwriting has delivered a combined ratio for the financial year of 104%, the fifth consecutive year that the Club has performed at or close to its target of 100%.

The Club's portfolio of investments has produced a healthy return of 5%. After accounting for foreign exchange difference, the surplus has increased total free reserves to $449 million with a further $99 million held in hybrid capital.

In contrast to the 2013 policy year which, with an unfortunate run of large claims, has developed into one of the more expensive policy years in recent years, the 2014 policy year was considerably less active. Delivering this stable financial year combined ratio, despite the expense of the 2013 policy year, is testament to the Club's strength.

The amount of business offered to the Club continues to grow and the Club's financial strength provides the foundation for the confidence which the market has in the UK Club. However, underwriting discipline remains paramount in our determination to protect the Club over the medium and longer term.

FINANCIAL OVERVIEW

The Board was delighted that in May 2014 Standard and Poor's recognised the financial progress made by the Club by confirming an upgrade to a full A (Stable) credit rating.

$4.32
Per ton

$548m
Free reserves and hybrid capital $m

104%
Combined ratio

5.0%
Investment return


A
(STABLE)
Standard & Poor's rating

CHAIRMAN'S STATEMENT 2015

Alan Olivier
Chairman

My fellow directors and I place great importance on listening to our Members' views.

This has been a good year for the Club. The free reserves increased by $20 million, which has taken the Club's capital (free reserves and hybrid capital) to $548 million. This result has been achieved through a combination of disciplined underwriting and a solid investment return of 5%.

The financial year combined ratio was 104%, a little higher than our target ratio of 100%, but satisfactory in the current soft market conditions and within our accepted tolerances in the short term. This year's result means that we will have achieved an average combined ratio over the last five years of 101% which is a very creditable result and amongst the very best in our market. The result is all the more impressive as we are still dealing with the aftermath of the 2013 policy year, which was one of the most expensive in the Club's history. This demonstrates clearly the underlying strength of the Club. It is also worth noting that, because of the way we account under International Financial Reporting Standards (IFRS), the headline combined ratio excludes the impact of any exchange rate variances; this is shown separately in our financial statements. If the benefit of the stronger US Dollar during the year had been fully reflected in the claims statistics, the combined ratio would have been 97%.

Claims

After last year's results, which were dominated by the impact of the 2013 policy year, it was a relief to return to a degree of normality in 2014. The number of claims in 2014 after 12 months was down 8% on those in 2013 and is some 40% lower than they were a decade ago. This is encouraging and while it is almost certainly driven by macro-economic factors such as the condition of the shipping markets, it must also reflect, in part, the Club's approach to the quality of its Membership. We must be careful, however, not to become complacent. Although the frequency of claims is down, the average cost of claims is increasing. The average cost per claim is now 20% higher than it was five years ago and people claims (injuries and illnesses) cost on average almost double what they did ten years ago. We must take care, therefore, not to let premium slip too far behind the level of claims inflation, which we know from our own experience and our experience of Group Pool claims is running well ahead of the mainstream inflation indices. This means that we must keep premiums moving forward, while being mindful at all times of the difficulties faced by many of our Members in the current shipping market conditions.

Capital

In this year's Review of the Year we return once more to the subject of capital and provide an explanation of our approach to our capital requirements. The Club's capital position, which is made up of a combination of free reserves and hybrid capital, is undoubtedly strong and enables us to meet all our capital requirements, including those arising under the Solvency 2 Directive. It also supports the Club's S&P rating. In our capital planning we include a buffer above the strict regulatory requirements in order to protect the Club from extreme events, such as the collapse of the investment markets combined with a sudden deterioration in the claims reserves such as we experienced in 2007/2008. However, the Board remains very aware that we must continue to balance the capital needs of the Club against the needs of the shipowners at a time of stress in the shipping markets. Consideration of that balance and the avoidance of holding excessive levels of capital is debated regularly at our Board meetings.

Service

Last year, in welcoming our upgrade to the full A (Stable) S&P rating, I referred to the effort that we would now need to put into maintaining our reputation for 'best in class' service. During the past year we have undertaken, together with our Managers, a review of our resourcing needs and have begun a programme of recruitment around the world. This will take some time to bed down but we are conscious of the need to ensure that we are providing the highest standards of service. To this end, we are once again conducting a survey of the Membership and I hope all Members and their brokers will have taken this opportunity to provide their comments and feedback to us. My fellow directors and I place great importance on listening to our Members' views.

We are strongly committed to the benefits of the mutual system, in which ship owners share their risks, own their insurance vehicles, and benefit from the highest levels of cover provided at cost.

Renewal

Immediately after the 20th February we reported another strong renewal result with a net increase of 1.2 million gross tons (gt) of mutual business, taking our mutual owned tonnage to 127 million gt. The combined mutual owned and chartered tonnage now stands at over 225 million gt, an increase of over 3% over the past year. More importantly, we achieved a premium increase of 3.5% before the impact of terms on our renewing business. While a little below our expected level of increase, given the Club's general increase announced at this renewal, it was a good result in the prevailing shipping market conditions and has enabled us to keep the premium moving forward.

Regulation

By the end of the year we had completed the process of restructuring our group of clubs with the transfers of business to our new branches of the UK (Europe) Club in Hong Kong, Japan, and Singapore. Meanwhile we have continued to put a considerable amount of work into our compliance with the Solvency 2 regime. During 2015 we will submit our Internal Model for regulatory approval. This model is used by the Board in making its key decisions on risk appetite, reinsurance purchases and our capital requirements. It has been specifically tailored to the needs of the Club and, if approved by the PRA, will enable the Club to hold less capital than would be required under the Solvency 2 Standard Formula for our industry.

Risk Management and Reinsurance

In recent years we have put in place a comprehensive programme for the Club's specific reinsurances. This has played a vital role in managing the claims volatility and has cushioned the impact of claims on the 2012 and 2013 years in particular.

I am pleased to be able to report that towards the end of last year we were able to renew all the Club's own reinsurances on very favourable terms; this will place us in a strong position should there be another surge in claims similar to that which we experienced in 2013.

Industry matters

Our Managers continue to play a leading role in the work of the International Group, chairing a number of influential IG subcommittees and serving on many others, through which industry issues and developments in liability law are addressed. We are strongly committed to the benefits of the mutual system, in which ship owners share their risks, own their insurance vehicles, and benefit from the highest levels of cover provided at cost. With our fellow members of the IG, the UK Club will work to ensure that the mutual product remains attractive, effective, and the product of choice for the vast majority of owners with blue water tonnage.

Governance

The work of the Boards of the Club and of the supporting committee structure has increased significantly over the last few years. For some directors, particularly those involved in our key committees, this means a considerable sacrifice of their time and their companies' time for the benefit of the Club. I would therefore like to thank in particular my Deputy Chairmen, Eric André, Ottmar Gast, Nicholas Inglessis and Masamichi Morooka for their support during last year. Sadly this will be the last time that I thank Eric as he stood down from the Board in October last year. On behalf of the Board and the Club, I would like to thank Eric for 21 years of service to the Club. We will miss his support. I would also like to thank Nigel Smith for the chairing of the Audit and Risk Committee. Over the year we have said goodbye to two other directors in addition to Eric André; Jason Liberty and Pavel Vasilchenko. I am very grateful to both Jason and Pavel for the important contributions they have made to our deliberations.

During the year four new directors, Peter Bagh, Randy Chen, Antje Gibson and Nilson Nunes joined the Bermuda Board and I am very much looking forward to their contributions over the coming years.

In conclusion

The results of 2014 have provided us with an excellent platform to take the Club forward. We have successfully weathered the impact of the high claims year of 2013, restored the Club's S&P rating and strengthened our balance sheet. I and my fellow directors are very much looking forward to building on the progress we have made recently and to cementing our position as the leading shipowner controlled P&I Club.

FINANCIAL HIGHLIGHTS

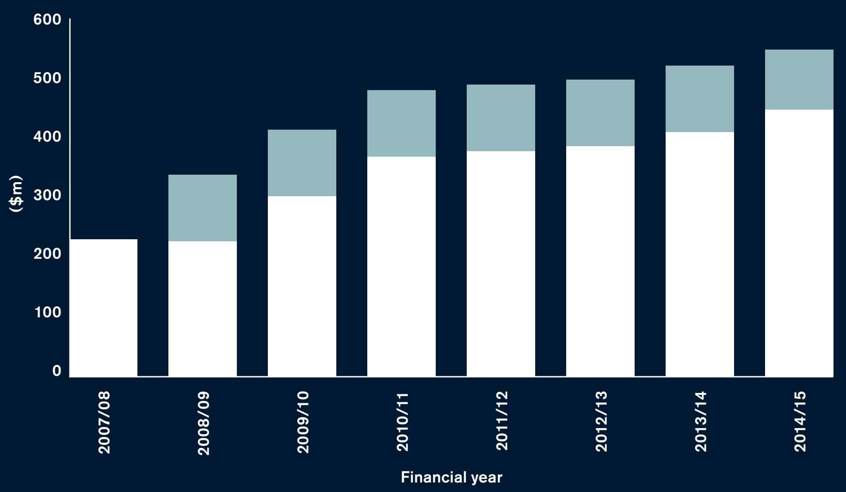
This is the 5th consecutive year the Club has maintained its combined ratio around the Club's target of 100%.

CAPITAL

- S&P rating of A (Stable)
- Free reserves and hybrid capital of $548 million (2013/14: $528 million)
- Free reserves and hybrid capital of $4.32 per ton (2013/14: $4.29)

Key
Free reserves
Hybrid capital

Free reserves and hybrid capital for financial years 2008 - 2015

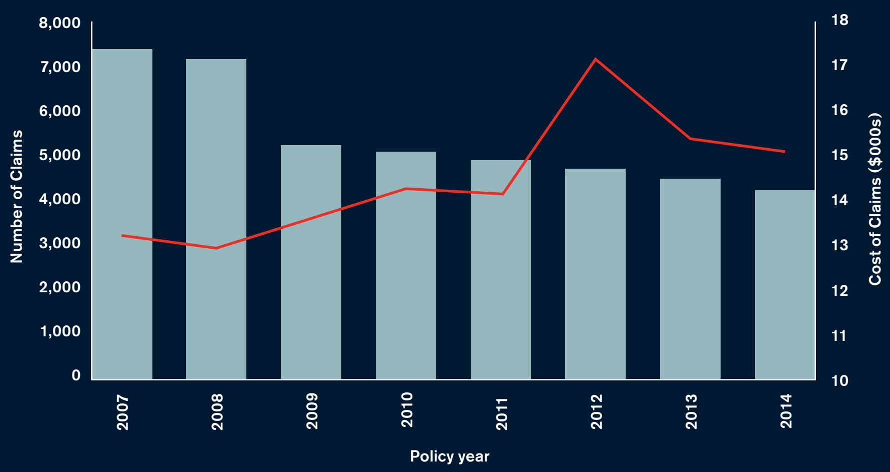


CLAIMS FREQUENCY

- The number of claims brought to the Club in a policy year continues to decline
- 90% of all claims cost less than $50,000 and 99% cost less than $500,000
- The average cost per claim is 20% higher than 5 years ago and 50% higher than a decade ago

Key
Number
Average cost per claim

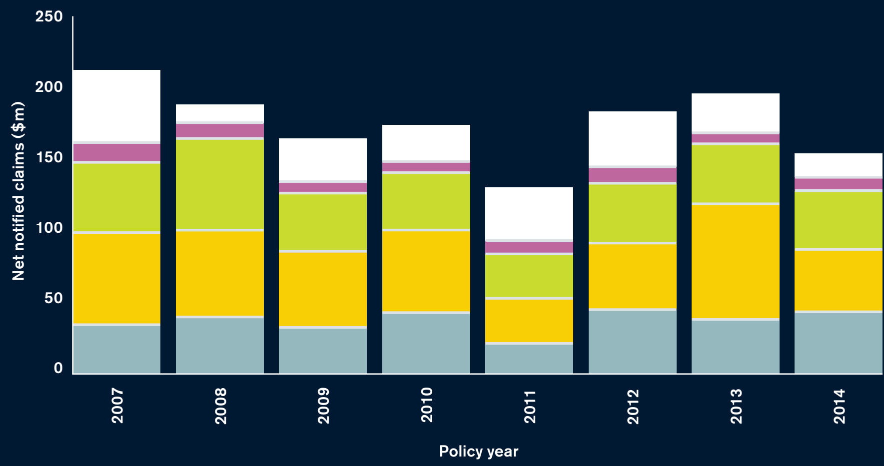
Attritional claims (<$0.5m) notified claims and claims frequency 2007 - 2014 at 12 months



CLAIMS VALUES

- 2014 did not suffer the large claims experience of 2013
- The 2014 pool was relatively inactive
- The Club's pool share is 8.5% compared to its market share of 12%

Net notified claims for policy years 2007 - 2014 at 12 months

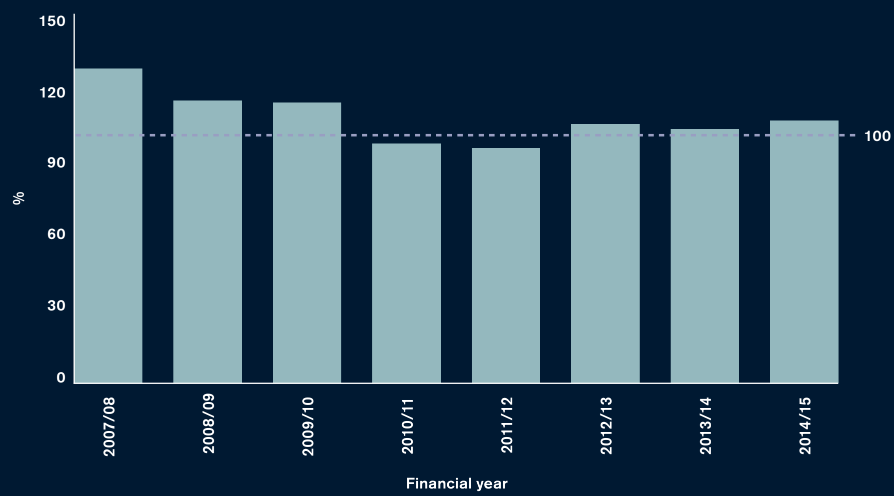


Key
- Pool
- Chartered
- Personal Injury
- Casualty
- Cargo

COMBINED RATIO

- 2014/15 financial year combined ratio of 104.6% is close to the Club's target of 100%
- The underwriting result has remained stable for 5 consecutive years
- Average combined ratio over the last five years of 101%

Combined ratio for financial years 2008 - 2015

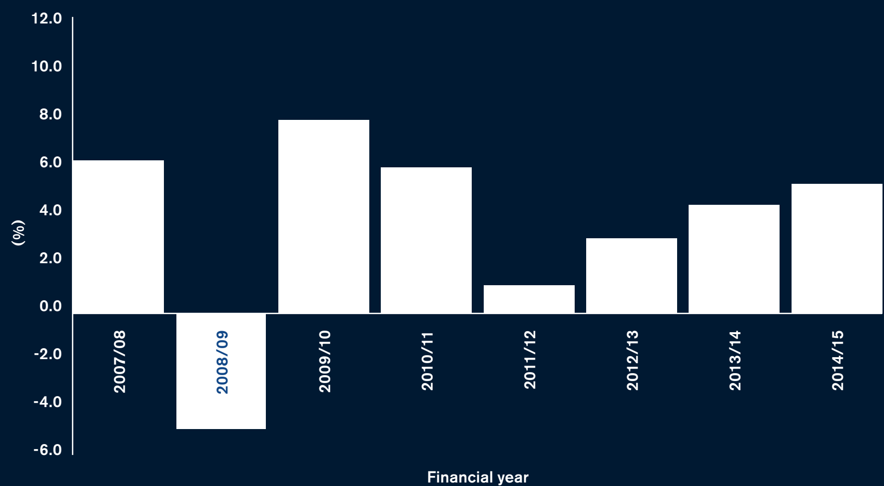


Key
- Combined ratio (%) excluding supplementary premium and mutual premium discount
- Target

INVESTMENT PERFORMANCE

- Investment return of 5% ($55 million)
- Asset allocation remains prudent

Investment portfolio performance



Key
- Return as % of portfolio

DOING WHAT'S RIGHT

UNDERWRITING DISCIPLINE

The Club welcomes operators from all regions and sectors of shipping, with operational quality and safety performance being the dominant underwriting criteria.

The Club seeks controlled growth whilst maintaining balanced underwriting results; thus, on the basis of claims history, credit reports, port state records, sanctions checks, pre-entry inspections, fleet age criteria, the Club declines to offer quotes for about 25 per cent of applications for Membership each year. As part of monitoring the standard of the existing entered fleet, the ship inspection department arranged visits to 446 ships during the year.

During 2014, the Club experienced high levels of underwriting activity, both in terms of additions and also sales and scrapping by Members. 13 million gt was entered mid-year, more than half of which were new buildings, while Members sold or scrapped 10 million gt in the same period.

A positive effect of this activity has been that the average age of entered tonnage continued to fall during the year. While it resulted in a slight decrease in gross mutual premium, the younger age profile will benefit the Club in future years. For the two largest trade categories by tonnage, tank and bulk, the average age is 9.0 and 7.6 years.

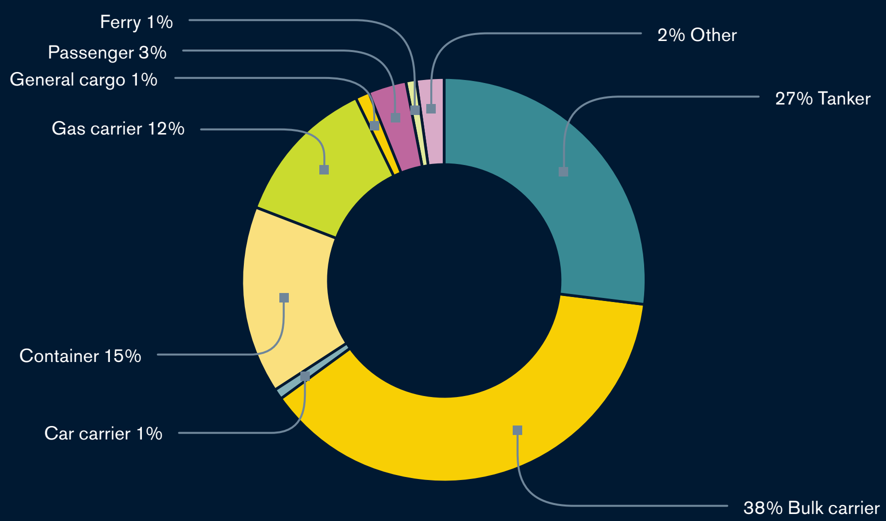
Even with an improved age profile, it is in the nature of our industry that large losses will occur from time to time. The Club's underwriting policies are structured so that the cost of these random large claims are shared across the Membership, in particular through the allocation of projected Pool and abatement layer claims. These policies play an important part in maintaining underwriting balance over the cycle, and they affect the premium needs of all Members. To assist Members understand this approach, the Club published an updated version of the booklet "Understanding Your Loss Record" during 2014.

2015 has also seen the Club extend the range of products offered to Members, in particular for risks related to logistics operations for liner Members and of offshore supply craft operators. The Club looks forward to working with Members and their brokers where these and other additional covers are needed.

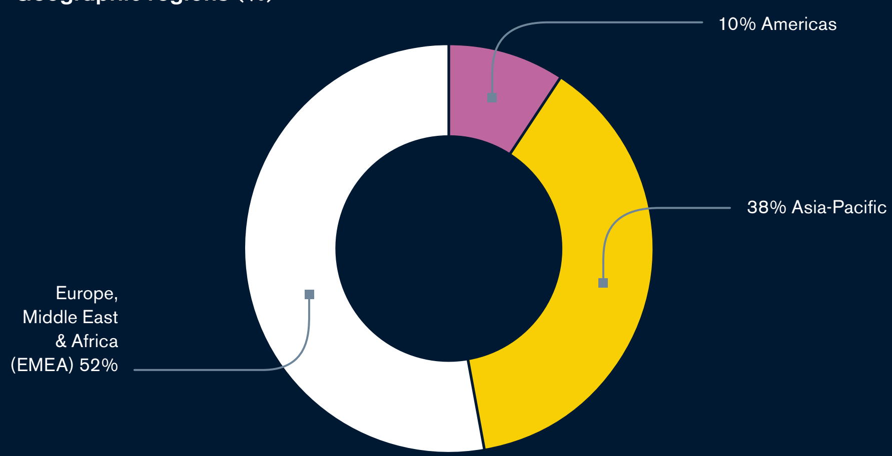
FLEET PROFILE

Figures as at 20th February 2015.

Share of total gt



Geographic regions (%)



4250

Number of ships

127m

Entered tonnage

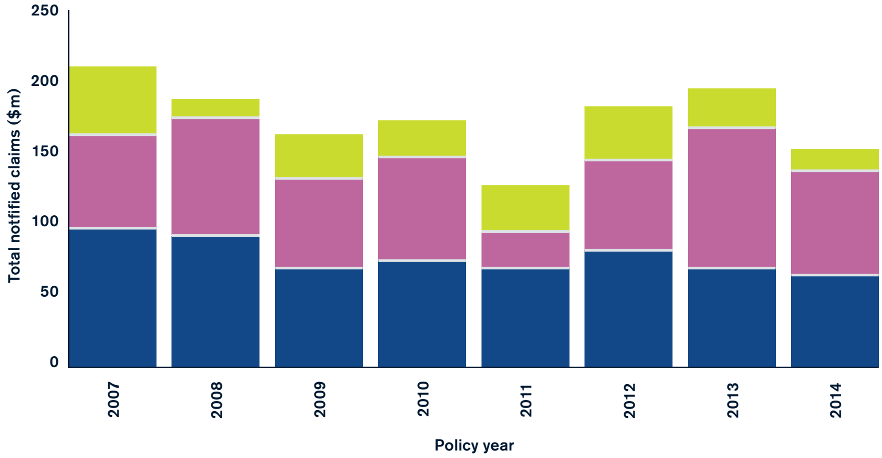
CLAIMS

In contrast to the 2013 policy year, which was one of the most expensive years in the history of the Club, the 2014 policy year has been less costly.

The total number of claims notified to the Club during the 2014 policy year has fallen and the cost of claims brought to the Club through the Group's pooling mechanism has been much lower. 2014 also saw far fewer large claims within the Club's retention; these claims had been a particular feature of the 2013 policy year.

Figure 1: Total net notified claims for policy years 2007-2014 at 12 months by size.

Key
- Attritional (Non-Pool)
- Large (Non-Pool)
- Pool

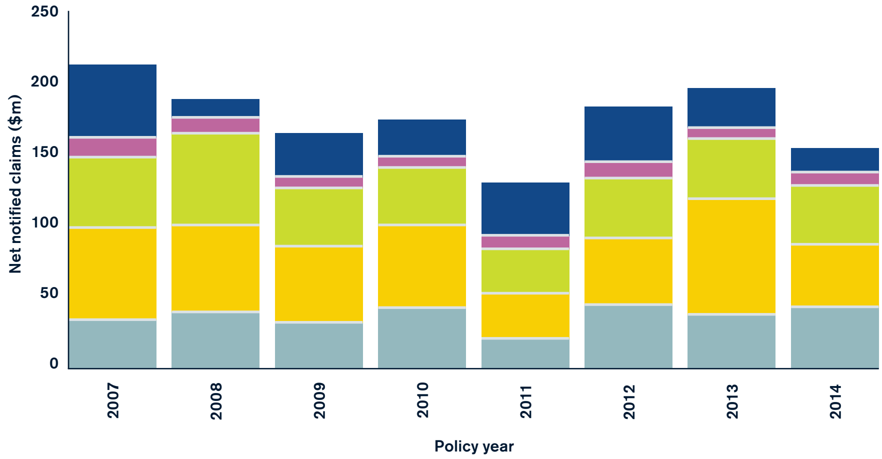


After twelve months, the total cost of claims notified to the Club relating to the 2014 policy year is more than $40 million (or 20%) lower than for the 2013 policy year at the same stage of development; it is also $20 million lower than the average of the previous 10 years.

Over the last ten years there has been a reduction in the number of casualty and personal injury and illness claims. In addition, the Club's contribution to Pool claims continues to reduce as a result of the Club's good record on the Pool. These factors have all contributed to the favourable loss experience on 2014.

Figure 2: Total net notified claims for policy years 2007-2014 at 12 months by category.

Key
- Pool
- Chartered
- Personal Injury
- Casualty
- Cargo



The cost of notified claims after 12 months' development of the 2014 policy year is one of the lowest in the past 10 years. The 2011 policy year is remarkable for its very low claims experience.

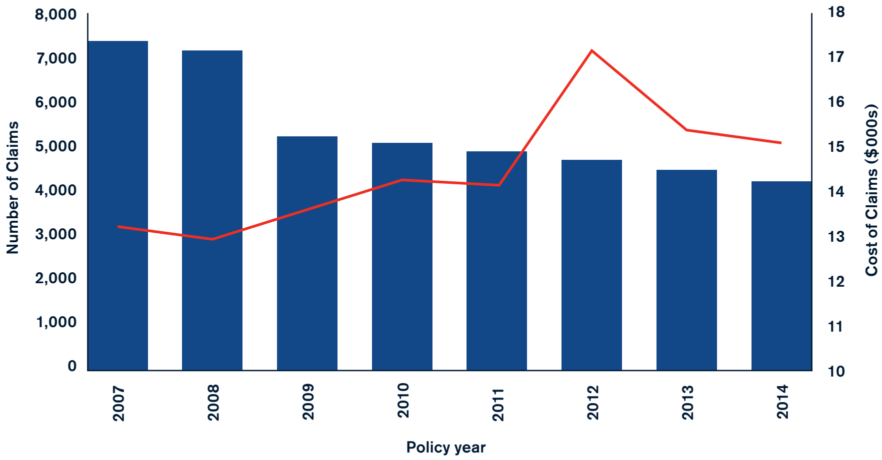
Figure 3: Number and average cost of net notified attritional claims for policy years 2007-2014 at twelve months.

Key

Number

Average cost per claim

Attritional claims



The frequency (the number of claims per year) of notified claims below $0.5 million has continued to fall across almost all categories of claim. The reduction is particularly noticeable in illness and injury claims. The number of claims being brought to the Club today is 20% lower than it was five years ago.

Nine out of every ten claims notified to the Club, have a cost below $50,000, and it is the frequency of these smallest claims that has reduced over the last ten years. The larger and more complex claims are therefore of increasing importance. Over the last year, the Club has increased resources and expertise in the claims handling teams to meet the demands of the more complex cases.

Despite the reduction in the number of attritional claims, their aggregate cost has remained broadly consistent over the last five years. This is because the average claim is 20% more expensive than in 2009 and 50% more expensive than a decade ago. The increase in the average cost per claim can be managed while the frequency of these claims remains low but, if claims numbers return to pre-2009 levels, the full effect of the inflation in the average costs of claims would immediately feed through into Members' records and into the Club's results.

CLAIMS

Large claims

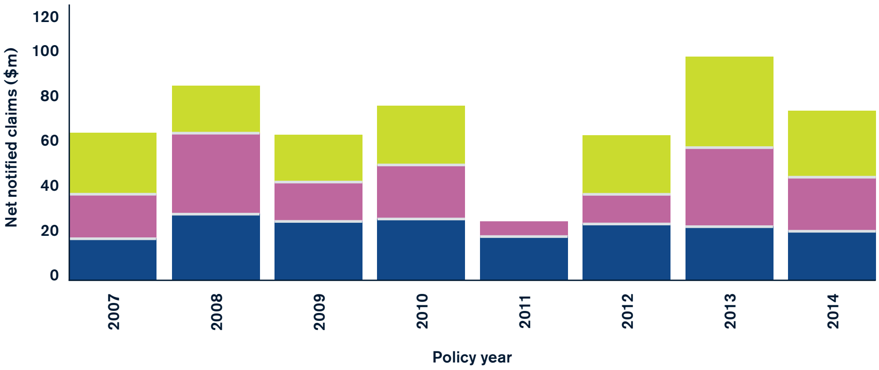
The frequency of large claims – those in excess of $0.5 million - remains low; approximately 3 such claims are notified to the Club each month, and this is less than 1% of all claims by number. However, in aggregate, these claims represent approximately half of the total claims cost of the Club.

These more random claims bring increased volatility to total claims cost. The Club has purchased specific reinsurances to manage the volatility in this category of claim and to protect the Club from a significant number of large claims occurring in an individual policy year. The 2013 policy year proved to be one of the most intense for large claims and the reinsurance protection has responded to support the Club's continued stable underwriting results.

The number of large claims in the 2014 policy year has markedly reduced from the very high number seen in 2013.

Figure 4: Net notified large claims (>$0.5m) for policy years 2007-2014 at twelve months, $m.

Key
- $0.5m to $2m
- $2m to $5m
- Over $5m

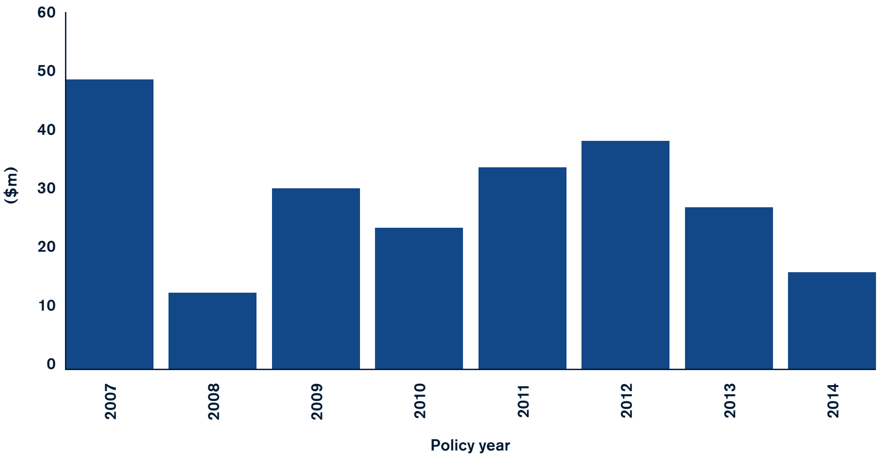


Pool

As a result of the Club's excellent Pool claims record, the Club's contribution to the Pool sharing mechanism is below its market share. This, combined with a relatively inactive Pool in 2014, means that the Pool cost incurred by the Club in 2014 is one of the lowest in recent years. The Club's share of notified claims in the 2014 policy year is approximately one third of the comparable figure for the 2006 and 2007 policy years when the Club's pool share was at its height.

The UK Club has not been notified by its Members of any claims in the 2014 policy year of a size sufficient for pooling. Therefore the Club's credit balance on the Pool and the resulting improvement to Pool share has been protected for a further year.

Figure 5: Club's share of Pool claims (net of own reinsurances) for policy years 2007-2014 at twelve months, $m.



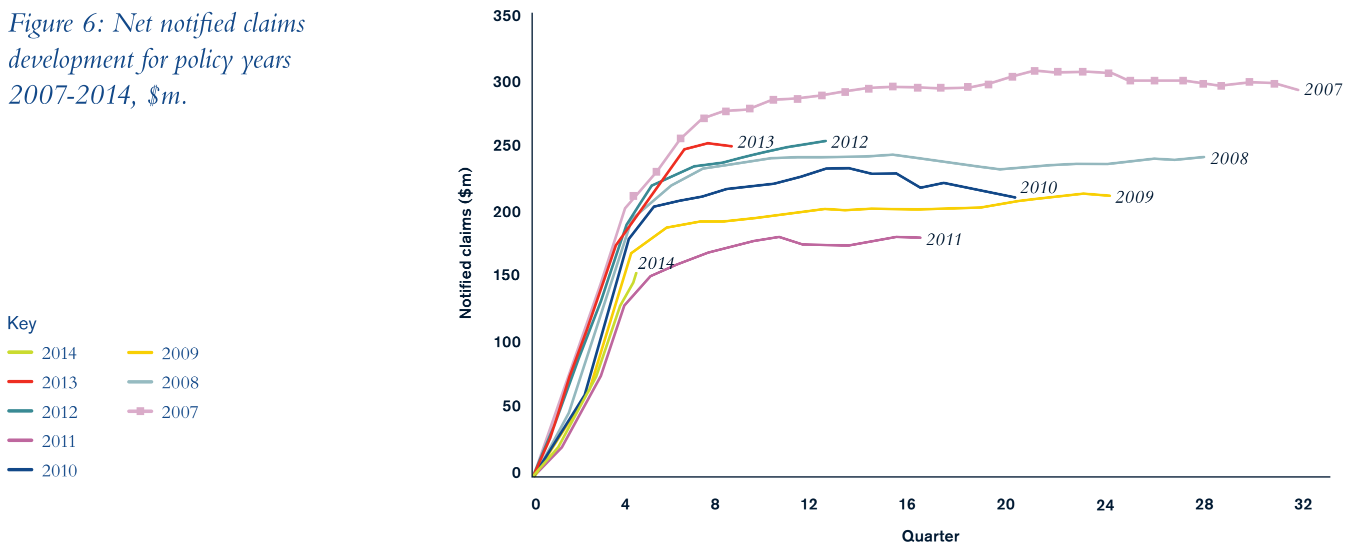
CLAIMS

Prior policy years

Over the first half of the financial year, claims cost rose quickly in the most recent policy years, particularly the 2013 policy year, and produced a half year combined ratio of 109%. However, that development slowed considerably in the second half of the year with favourable currency exchange rates and good outcomes on a number of cases. The total cost of the 2010 policy year also continued to decline.

The favourable development in the second half of the 2014 financial year helped the Club deliver a combined ratio close to the 100% break-even point. However, the benefit of favourable development in prior policy years was less significant to the result for the financial year to 20 February 2015 than in previous years. This trend of lower prior-year claim releases, which was highlighted in the Club's October Review in 2014, confirms the need to ensure that premium rates remain sufficient to meet the cost of claims going forward.

Figure 6: Net notified claims development for policy years 2007-2014, $m.




SAFEGUARDING
TOMORROW
TODAY

INDUSTRY ISSUES

The Board received regular reports throughout the year on industry issues that are relevant to maritime liability, many of which have an International Group (IG) dimension.

The Managers monitor the issues, provide website information to Members, and play an energetic role in the work of the IG, chairing a number of influential subcommittees and serving on many others.

The UK Club is a strong advocate for benefits of mutuality, at a time when competitors have experimented with offering other insurance structures for P&I.

The ability of ship owners, through the IG, to speak with a united voice on liability matters, and to be heard in IMO and other international organisations where maritime laws are framed or discussed, should not be under-valued.

Nothing illustrates this so well as the response to industry issues. Through their Clubs, ship owners are mutual insurers as well as insureds, and can decide for themselves on how to react when new convention liabilities arise.

Maritime Labour Convention
Last year's Review noted the entry into force in August 2013 of the Maritime Labour Convention (MLC), consolidating more than 60 ILO standards into a single instrument; the Club provided practical help with these issues and brought in a Rule amendment to allow certificates of entry to be used as evidence of financial security.

During 2014, the Directors considered a report on enhanced financial security provisions, which would cover up to 4 months' unpaid wages, to be included in amendments to the MLC that are expected to take effect by January 2017. While this is not a traditional P&I risk, and involves managing potential moral hazards, the Board decided that it wished the Club to be in a position to provide the certification. Work will continue during 2015 to make the necessary preparations. Unlike the position under other maritime liability conventions, where financial security is evidenced by a certificate issued by the Flag State in return for a blue card issued by the insurer, it is envisaged that the certificate evidencing financial responsibility under the MLC will be issued directly by the insurer.

Sanctions
The Board received regular reports on sanctions, including the relief programme in respect of US and EU sanctions on Iran, agreed under the Iran Joint Plan of Action on 24th November 2013 and extended in November 2014 to 30th June 2015. No substantive changes were made to the program, and it remained the case that Owners who wished to trade within the scope of the relief provisions ran the risk that the Club could be prevented from paying claims relating to the relief period once the period had ended if the sanctions were then restored in full.

The Club continues to provide website advice on the risks presented by sanctions. Following incidents involving other clubs, Members were cautioned specifically about STS operations in the Persian Gulf designed to disguise the origin of Iranian oil exported, in breach of sanctions, to countries other than those (India, China, Japan, South Korea, Taiwan and Turkey) which benefit from a waiver under the US National Defence Authorisation Act (NDAA).

New EU and US Sanctions against Russia have also been announced, but seemed to have relatively limited effect in the maritime sphere, being targeted against individuals and entities with specific links to the Russian president.

Nairobi Wreck Removal Convention

The end of the year saw much activity to prepare for the issue of blue cards relating to the Nairobi Wreck Removal Convention, which will enter into force in State Parties on 14th April 2015.

The Convention provides a strict liability, compensation and compulsory insurance regime for States affected by a maritime casualty. It makes the registered owner of a ship liable for locating, marking and removing a wreck in the exclusive economic zone (EEZ) of a State Party. A State Party can extend the scope of the Convention to their territorial sea, but in States which do not exercise this option, the Convention will apply only in the EEZ.

Owners of ships of 300 gross tons or more, registered in a State Party or entering or leaving a port in the territory of a State Party, need insurance cover arrangements which meet the requirements of the Convention and a certificate from a State Party attesting that such insurance is in force. For States Parties that do not extend the Convention to the territorial waters, they will not be able to avail themselves of the right of direct action conferred under the Convention to “wreck” incidents that occur in their territorial sea.

Notwithstanding that Clubs in the International Group do not usually provide shipowners with primary P&I war risks cover, it has been agreed to pool all liabilities incurred under certificates issued, including otherwise excluded liabilities, up to, but not exceeding, the amount of the liability so certified. Policy defences and exclusions will continue to apply in the usual way in respect of liabilities arising otherwise than under Certificates.

It remains to be seen how widely ratified the Convention will become. As of April 2015, the States Parties were Bulgaria, Congo, Denmark, Germany, India, Iran, Liberia, Malaysia, Marshall Islands, Morocco, Nigeria, Palau, and United Kingdom.

Piracy

While there were no successful piracy attacks recorded in the Indian Ocean or Gulf of Aden in 2014, piracy off West Africa continued to present a serious problem to owners trading to the Gulf of Guinea, especially off the coast of Nigeria.

Piracy off West Africa typically consists of armed robbery, cargo theft (by hijacking and transferring cargo to smaller vessels), and kidnapping crew for ransom. Attacks are often violent and the potential for P&I losses is greater than under the Somali piracy business model.

Some owners sought to address the problem in 2014 by use of armed guards sourced from local military forces, or in some instances by unarmed personnel of private maritime security companies (PMSCs) providing additional skills on board.
There was accordingly a demand from Members to contract with PMSCs on the GUARDCON form with logical amendments to reflect these circumstances - and agreement was reached between BIMCO and the IG for the Clubs to make available an amended “GUARDCON West Africa”. However, by the end of the year, such arrangements were the subject of controversy in Nigeria, with vessels detained by the Nigerian Maritime Safety Agency on grounds that use of guards on ships other than approved Nigerian Navy patrol vessels was not permitted.

New ‘Guidelines for Protection against Piracy in the Gulf of Guinea Region’ were developed by the shipping Round Table in a joint industry initiative, to supplement the guidance previously issued in relation to Somalian piracy under BMP4. The Guidelines were endorsed by the Club and publicised on the website.

The Directors received a report on a new, Ghana based, Maritime Trade Information Sharing Centre for the Gulf of Guinea (MTISC-GoG), intended to be a focal point for information on countering piracy and maritime crime in the region. The aim of MTISC-GoG is to maintain an overall picture of maritime activity and threats off West Africa, based on vessel reports. While it has no ability to direct deployment of military vessels to assist ships, it is intended to be linked with national maritime operations centres, to help in co-ordinating with any available military assistance. As 2015 got under way, all the indications were that piracy in West Africa will remain a very active issue in the foreseeable future.

RISK MANAGEMENT AND REINSURANCE

Our aim is to maintain a robust risk management system that allows us to identify, manage and mitigate all significant risks facing the Club.

The Club's own reinsurance programme
As was noted in last year's Review of the Year, the Club's own reinsurance programme has become increasingly sophisticated over recent years and made a significant contribution to the Club's overall results and its approach to risk management. In particular, significant recoveries are still expected to be made in respect of the 2012 and 2013 policy years from the Club's Pool protection and large claim reinsurances.

The International Group Reinsurance Programme
The 2014 policy year proved to be yet another benign year for claims reported to the Pool and to the Group's reinsurers. As at 20th February 2015, a total of 15 claims had been notified to the Pool with a total estimated exposure of around $180 million, and no claims had reached the general excess loss attachment point of $80 million. This represents a third consecutive year of very favourable loss experience on the International Group's reinsurance programme. However, the COSTA CONCORDIA and RENA claims on the 2011 policy year deteriorated during 2014 and losses to the contract increased by a further $400 million.

Pool structure
For the 2015 policy year, no changes have been introduced into the lower and upper Pool layer structure. The individual Club retention remains at $9 million and the attachment point on the Group's reinsurance has remained unchanged at $80 million. Hydra's reinsurance of the Group Pool has also remained unchanged at $50 million excess of $30 million.

Helping our Members manage risk
Helping Members to manage their risks is at the heart of the Club's business. We take it seriously and have developed the most extensive loss prevention programme in the P&I industry, reflected in a wealth of information in the UK Club website.

Alongside all the traditional LP products, the Club has a number that are unique. Crew illness claims are prevented by our Pre-Employment Medical Examinations, under a PEME scheme which was the first in the industry and remains unique in terms of the high standards required of its clinics. For other claims categories, the UK Club is alone in employing a team of in-house risk assessors, who are ex-Master Mariners, to provide practical but free advice to Masters and crews on areas of risk identified on board. Further developments to the programme in 2014 saw the launch of self-assessment modules, as a result of which Members can enjoy a unique insight into all the factors identified as causative of claims that are actually paid by the Club. Meanwhile, for the risk of maritime crime, the UK Club alone offers a unique in-house investigation service from former senior Metropolitan Police officers with a wealth of experience – Signum Services.

Structure of the International Group reinsurance programme for 2015

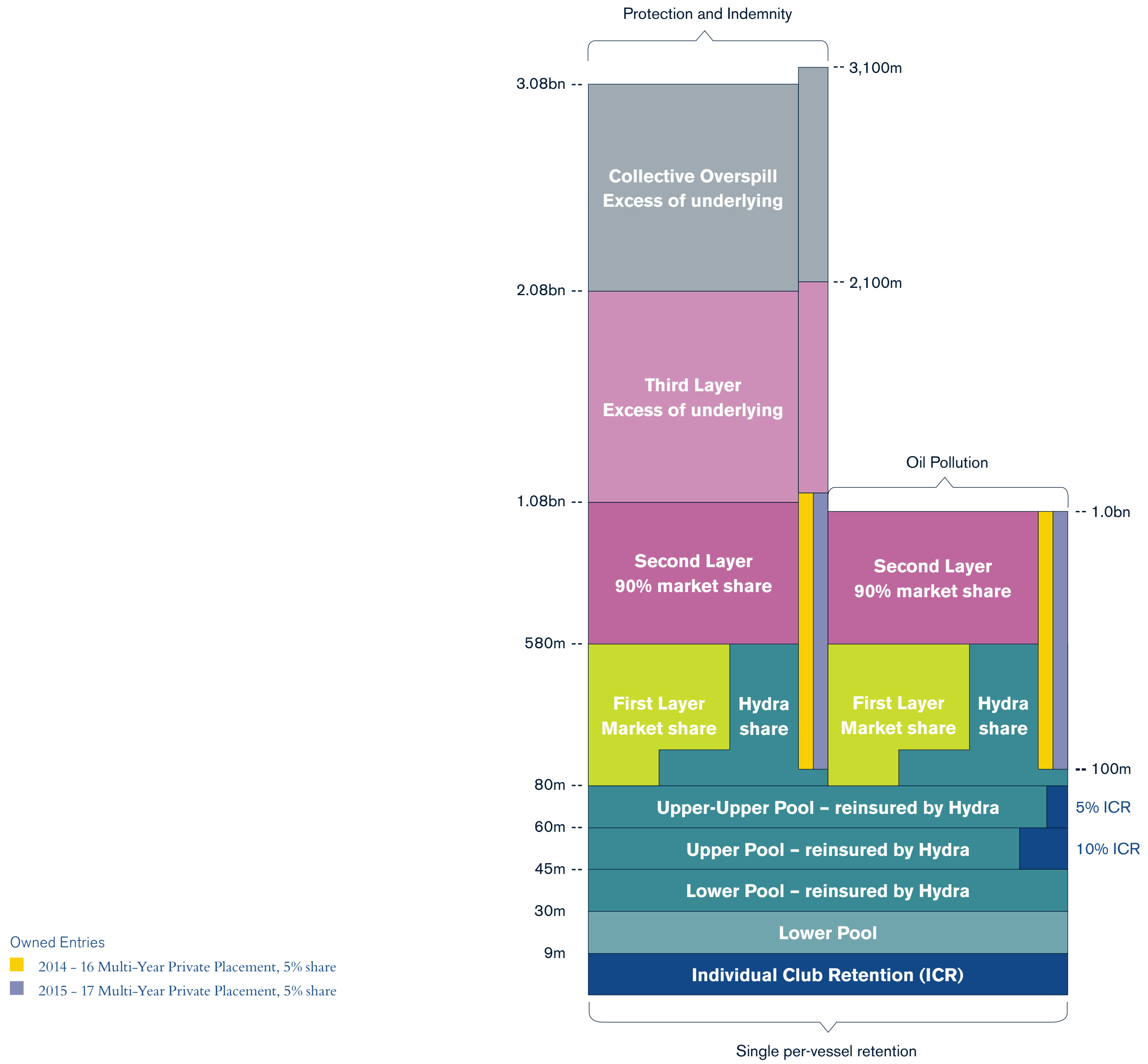
A number of factors, including increased market capacity, the continuing positive financial development of the Group's captive Hydra and the use of further multi-year fixed placement enabled the Group to achieve favourable reinsurance renewal terms for 2015. As a result of this the reinsurance rates for tanker and dry cargo vessels reduced and there was no increase for passenger vessels.

Hydra increased its coinsurance share in the first layer of the Group programme to include an additional 30% share of the layer from $80 million to $120 million, and a 10% share of the layer from $80 million to $100 million, thereby increasing its overall participation on the layer from 30% to 32.8%.

In addition to the 5% 36-month private placement of $1 billion excess $100 million which incepted on the last renewal, a further 5% 36-month private placement of $1 billion excess of $100 million incepted on 20th February 2015.

This diagram illustrates the structure of the Group general excess programme for 2015/2016:

International group excess loss reinsurance contract for 2014/15
General Excess of Loss Reinsurance Contract Structure
Owned Entries (including Overspill Protection, Hydra Participation, Pooling and Individual Club Retentions)
12 months at Noon GMT 20th February 2015



INVESTMENTS

Our aim is to achieve a superior return on the Club's assets whilst protecting the Club's capital from excessive market risk.

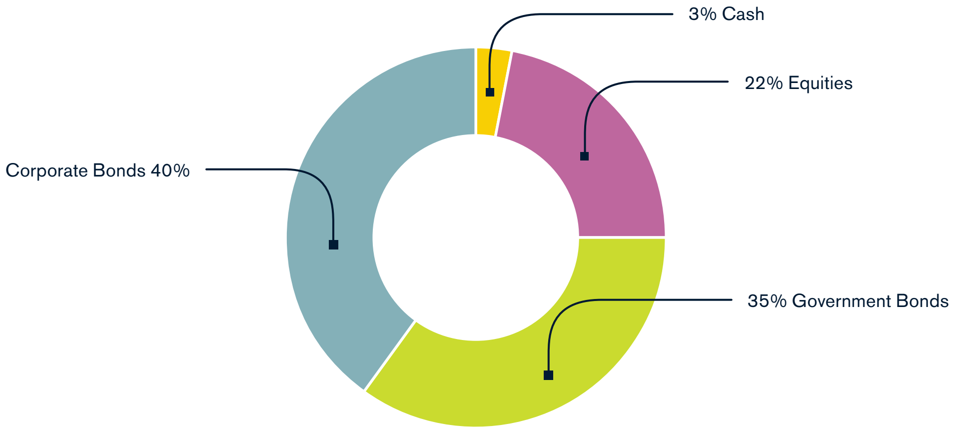
Economic background and investment returns
The financial year was dominated by major economies being at very different points in the economic cycle. The US economy continued to grow at a healthy pace stimulated by low interest rates, low energy prices, reasonable credit growth, business investment and consumer spending. To date this growth has not turned into wage growth or any concerns about inflation. Markets, however, continued to predict higher interest rates in the US, which lead to a consistently strong US dollar. Europe and Japan on the other hand have shown few signs of economic health. The lack of consumer and business demand or credit growth means policy makers have been more concerned about deflation than inflation. Interest rates have continued to decline and in some cases are now negative. Because of this economic backdrop the Euro and the Yen weakened substantially.

Most asset classes, with the exception of commodities, performed well during the year when viewed in local currency terms. When translated into dollars, however, returns from non-dollar assets were poor. The notable performers during the year were the S&P500 index, which rose by 17%, and longer dated government bonds.

Portfolio positioning
The investment portfolio benefited from an overweight positions in equities and US dollar assets, and from good equity stock selection. The fixed interest portfolio suffered in the early part of the year from holding a low duration position but was helped by relatively high corporate bond exposure.

Figure 7: Asset allocation at 20th February 2015.

Asset allocation at 20th February 2015



INSURANCE REGULATION AND GOVERNANCE

Our aim is not only to maintain compliance with regulation across all jurisdictions but also to capitalise on the benefits of sound governance.

The prospective regulatory regime for insurance firms in Europe, Solvency 2, will come into force on 1st January 2016. The Club's project to achieve full compliance has moved into the final phase, during which the Club will seek approval from the regulator for the treatment of certain elements of the capital calculation.

The key application is for regulatory approval of the Club's internal model. This sophisticated model has already been successfully employed within the business to help the Board determine the impact of key decisions on future results and capital requirements. It is also integral to the process of assessing the Club's own reinsurance needs.

With regulatory approval, the Club will be able to use the model to determine the regulatory capital requirements under Solvency 2. As the model is specifically tailored to the UK Club, it provides a more accurate and comprehensive view of the Club's risks, which in turn will enable the Club to hold less capital than if the more general, standard factors were to be applied.

Your Board is working closely with the regulator to gain approval for the model and has been encouraged by feedback received during this process to date.

DOING WHAT WE SAID WE'D DO

CAPITAL MANAGEMENT

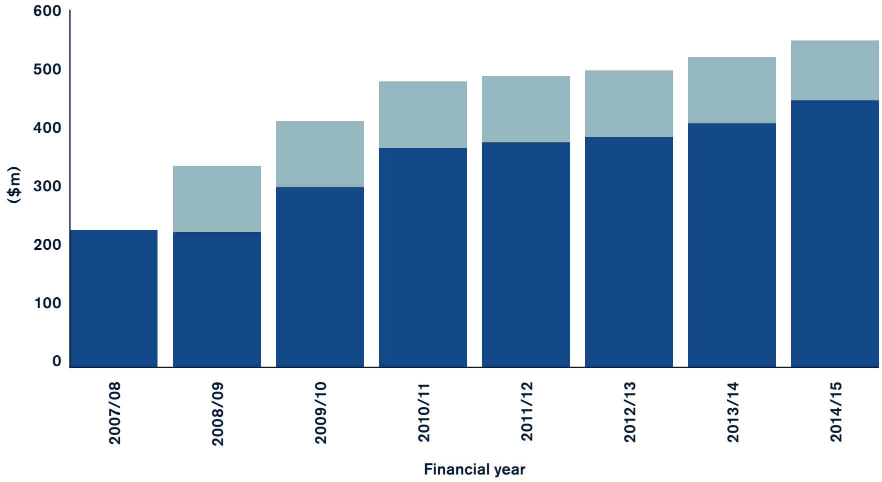
Capital strength provides the foundation on which the Club will achieve its goal of maintaining long term financial strength.

Capital strength

The stability of underwriting result over the last five years, coupled with robust investment return, has enabled the Club to build a strong capital base. The Club's free reserves have reached $449 million with $99 million of hybrid capital taking the overall free reserves and hybrid capital to $548 million. Capital strength provides the foundation on which the Club will achieve its goal of maintaining long term financial strength.

Figure 8: Growth in the Club's free reserves and capital, financial years ending February 2008-2015, $m.

Key
- Free reserves
- Hybrid capital



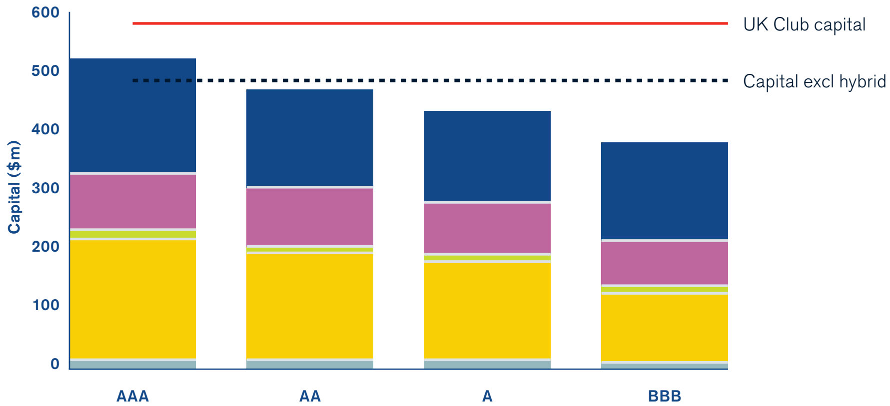
Risk appetite

The Club manages risk within its appetite through mitigation techniques such as reinsurance.

The Club's target is to hold sufficient capital to cover the rating agency and regulatory requirement, plus an appropriate buffer. This buffer is designed to ensure that the Club could withstand the impact of a very adverse year, yet continue to hold enough capital to meet the regulatory requirement.

Figure 9: Composition of S&P capital requirement compared to Club's capital February 2015.

Key
- Reserve risk
- Premium risk
- Concentration risk
- Market risk
- Credit risk
- Total available capital
- TAC Excl hybrid



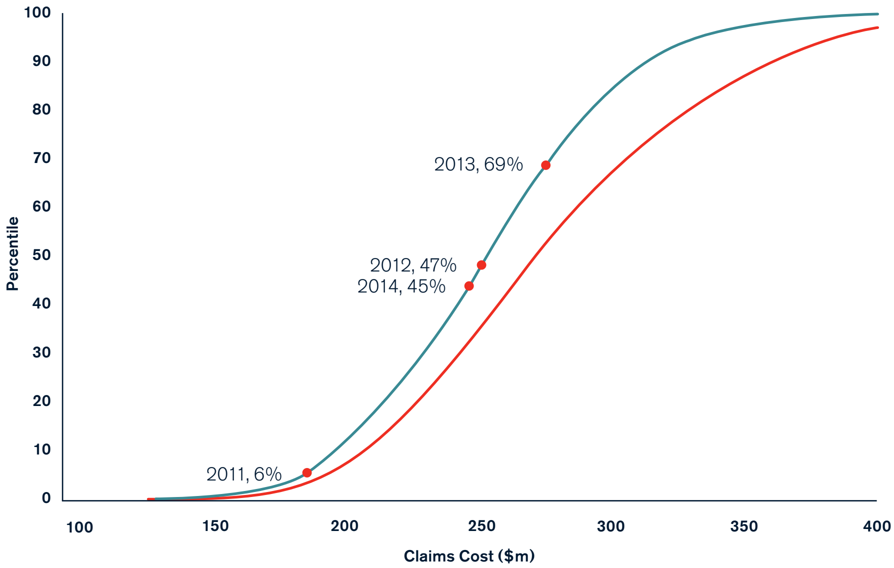
Maintenance of capital

The Club aims to preserve capital through robust risk management processes including reinsurance purchase and other risk mitigating techniques. The Club's internal model enables the capital impact of these techniques to be identified in advance so allowing the Club to make informed decisions on their use. Risk management techniques can reduce but not remove volatility.

The graph below is generated by the Club's internal model and shows the probability of various claims outcomes for the 2015 policy year. Analysis is completed each year and assists the Board when setting the premium requirement. The Club seeks to meet the mean claims outcome through annual premium; capital is required to meet fluctuations outside of the mean level. The 2012 and 2014 policy years were close to mean, with the 2013 policy year more expensive.

The financial strength of the Club has enabled it to absorb the more expensive 2013 year without diluting its capital base.

Figure 10: Probability range of claims outcomes 2015 policy year net of Club's reinsurances and Pool reinsurance.



Key

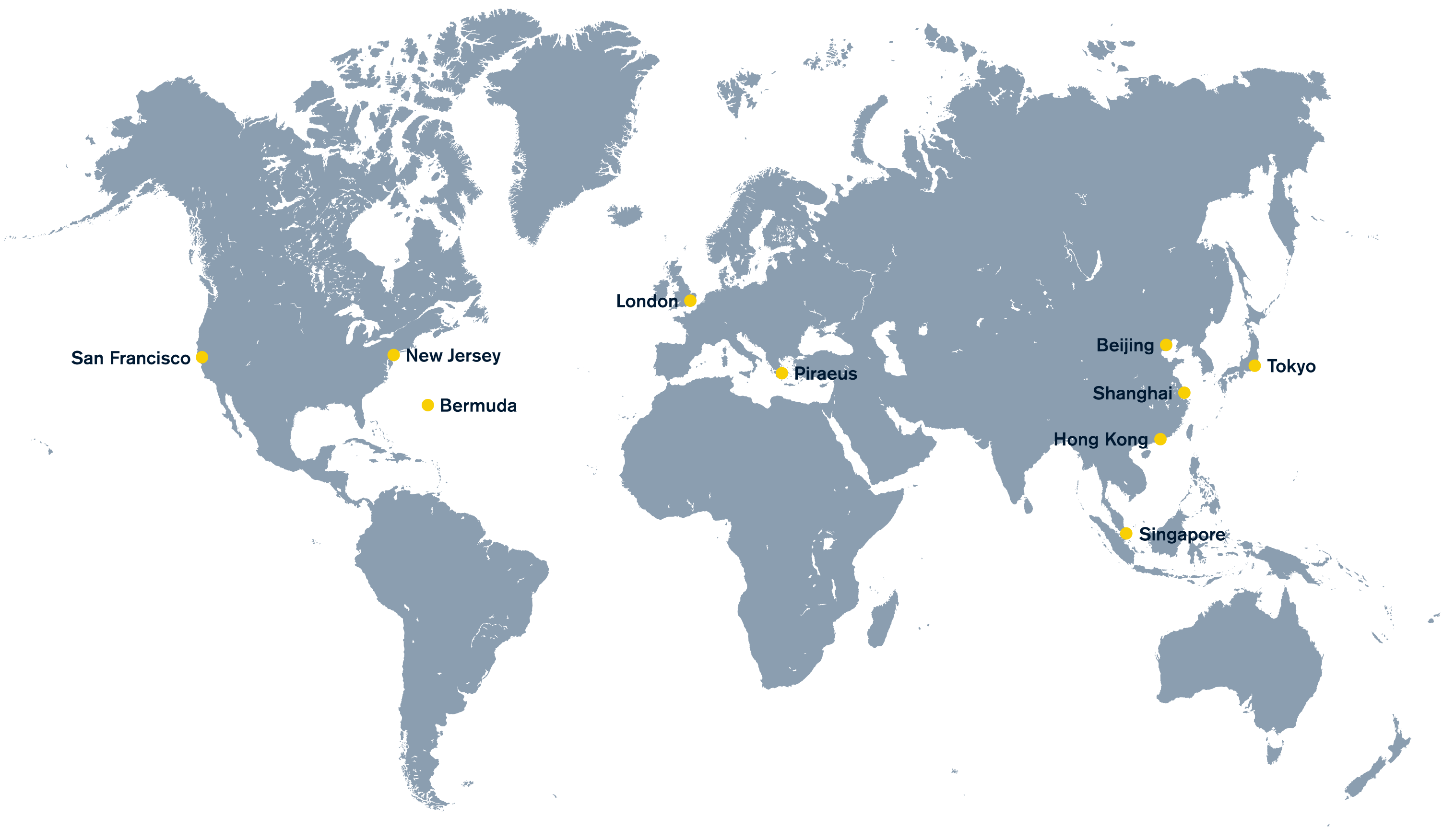
Net of Club's own reinsurance

Gross of Club's own reinsurance

Capital management

The Club has determined the immediate actions that it would take should its available capital fall below the target level. In addition, to avoid holding excessive amounts of capital, the Club has set an upper limit to the capital that it should hold, given the risks it faces and its risk appetite. Should the available capital increase above the upper limit, the Club would also take appropriate actions to address this; such actions may include the return of capital to Members.

UK P&I CLUB GLOBAL NETWORK



UK P&I CLUB