UK P&I CLUB

REVIEW OF THE YEAR 2016

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

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INTRODUCTION

2015 has been another strong year for the Club. The importance of consistent disciplined underwriting was evident in a year of volatility in the investment markets. The combined ratio for the financial year was 92%, better than the Club's target of 100%.

With six consecutive financial years at or close to break even, the Club has developed a strong track record for balanced underwriting. This consistent underwriting performance enabled the Board to discount the 2014 policy year mutual premium by 2.5%.

Global investment markets were less favourable. Given the prevailing conditions, the Club's return of negative 1% (excluding the impact of foreign exchange) was respectable.

At 20 February 2016, the Club held free reserves of $448 million with a further $99 million held in hybrid capital.

Looking forward

In February 2016 the Board announced that it had entered into discussions with the Board of the Britannia Club with a view to potential merger.

Individually both the UK Club and Britannia are well-positioned to provide continuing first class service to their members and achieve their strategic objectives. Both Clubs have the highest reputation for financial strength and service offering within their markets. The Boards continue to investigate whether the combination of their resources will place the Club in a better position to face future challenges and create additional value for the Members.

FINANCIAL OVERVIEW

Six consecutive financial years at or close to break even, the Club has developed a strong track record for balanced underwriting.

$4.05

Per ton

$547m

Free reserves and hybrid capital $m

92%

Combined ratio

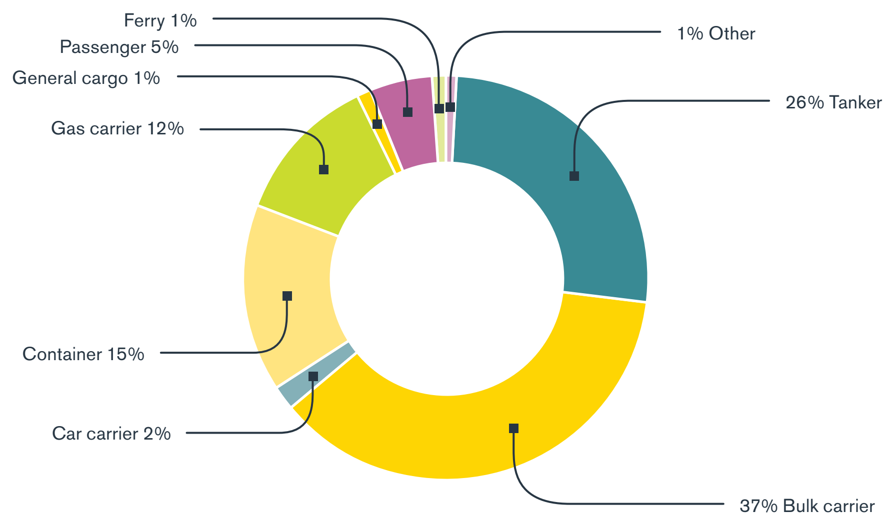
-1.0%

Investment return

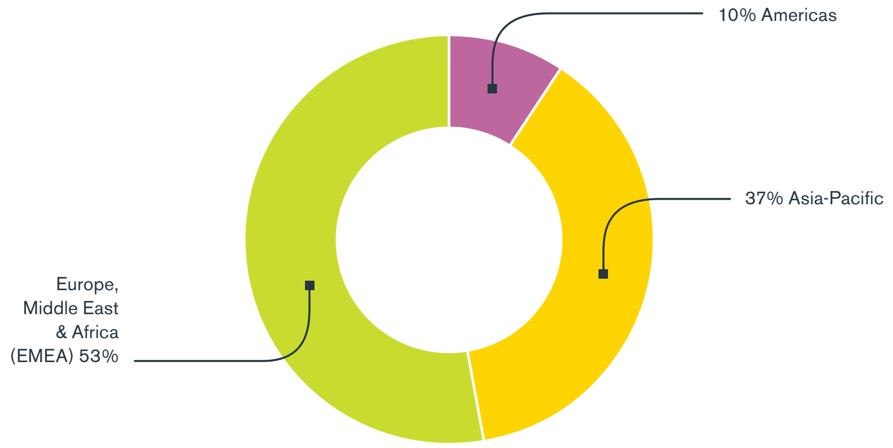
FLEET PROFILE

Figures as at 20th February 2016.

Share of total gt



Geographic regions (%)



6.8%

Growth in owned tonnage since February 2015

3361

Number of ships over 1,500 gt

135m

Entered tonnage

CHAIRMAN'S STATEMENT 2016

Alan Olivier
Chairman

The last renewal was particularly positive for the UK Club and it capped a very good year for growth in the Club's tonnage.

2015 has proved to be another good year for the Club culminating with a very positive renewal. On the financial side, we ended the year with a small surplus despite a loss from our investment portfolio. This positive result in a poor year for the investment markets can be attributed to our disciplined approach to underwriting.

The combined ratio for the financial year was 92%; a very creditable result in the prevailing soft market conditions. This year's result means that the Club will have delivered an underwriting result at or close to our target breakeven 100% combined ratio for the past six years.

Consistent underwriting results have helped to build our capital reserves and I was delighted that once again we were able to reflect our continuing strong financial performance by reducing our premium requirement last year. In October, we reduced the final premium instalment of the 2014 year by 10%, an overall reduction of 2.5% on that year's premium. As I said in my statement two years ago, if the circumstances allow - particularly in the event of another strong underwriting year, I would hope that it would be possible to make further returns in the future.

Claims
The cost of claims in 2015 was one of the lowest for a decade and the claims profile was very similar to that of 2011, which was one of the best claims years on record. Two key features have contributed to this result: a lower number of expensive casualty claims and the reduced number of claims overall. Our continuing good fortune in avoiding the larger casualty claims also means that our overall credit balance on the Pool is now just under $140 million. This is good news for our Members as it means that we will pay reduced contributions to our share of Pool claims. At the same time, we cannot be complacent: the average cost of each additional claim is inflating at over 4% a year and a small increase in the number of claims together with a handful of large casualty claims could result in a poor claims year.

Capital
The Club's free reserves and capital are largely unchanged from one year ago. The question of how much capital a P&I mutual needs has been much debated in recent years, particularly in the context of the Solvency 2 Directive. I and my fellow Directors are acutely aware of the need to explain the Club's approach to its capital requirements, particularly in these distressed markets for many shipowners. We have therefore returned to this topic once again in the Review of the Year.

Renewal
The last renewal was particularly positive for the UK Club and it capped a very good year for growth in the Club's tonnage. Net growth in owned tonnage at the renewal was just over 4 million gt, one of the best on record, and the year-on-year growth was 8.5 million gt. This took the Club to 135 million gt of owned tonnage, an increase of 6.8% over the year. Premium, after taking into account the effect of the reduction in the cost of reinsurance was down around 1%. This was in line with our expectations and a satisfactory result in the current market. The charterers' book was largely unchanged from the previous year.

Service
Last year the Club carried out a survey of the Members and brokers, and the findings of that exercise affirmed the now widespread perception of the Club's position of leadership in the industry. We remain at the forefront of excellent case handling and provision of value-add services to the Members, and this is attributed to our commitment to a real understanding of our Members' operations and requirements. The survey also confirmed the market view of leading financial strength and stability, so that Members should feel assured in their decision to entrust their P&I risks with the UK Club. As we move forward through continuing difficult times for shipowners the membership should be confident that the UK Club has positioned itself to offer the right people, in the right places at the right time to manage the impact on their operations of P&I risks.

We are a few months into our merger discussions with the Britannia Club. This initiative provides us with an opportunity to create a world beating shipowner controlled P&I club.

Industry
The Club continues to make a strong contribution to many aspects of the affairs of the International Group, through widespread participation of our Managers in IG subcommittees, often in leadership roles - including that of the current Chairman of the IG Managers. Industry issues and developments in liability law are addressed and policy is developed for recommendation to Club boards. A huge range of subjects is tackled, amongst which one of the most prominent in 2015 was the partial lifting of Iran sanctions late in the year. This offered trading opportunities, but brought challenges for reinsurance programmes due to continuing primary sanctions in the USA. Two of the other subjects that remained in focus were the Maritime Labour Convention, where preparations are ongoing to provide the financial security that shipowners will need from January 2017, and piracy, which presents a significant threat to trade in certain areas, particularly in the Gulf of Guinea region.

Regulation
After years of planning and a number of delays, the Solvency 2 regime finally came into force on 1st January 2016. The Club has prepared for Solvency 2 in a number of ways. We have restructured the Club to bring its underwriting subsidiary in line with the requirements of the Directive, rearranged our governance at Board level better to reflect the demands of the new regime and, perhaps most significantly, we have adopted a market standard approach to risk assessment and the setting of our capital requirement. As part of that process the Club sought, and on 17th February 2016, obtained approval from the Prudential Regulatory Authority of the use of the Club's internal model to calculate the Solvency Capital Requirement. This was a most significant milestone for our Club and places us in a small group of firms in the London market with approved models. In addition to reducing our solvency capital requirement, we use the model to help us in all our key financial decisions, from setting the premium requirement at the start of the policy year to designing our reinsurance programme.

Governance
2015 was another busy year for the Board and for some, particularly those involved in the internal model approval process, it involved a considerable sacrifice of their time. I would therefore like to thank all my fellow Directors and particularly my Deputy Chairmen for their support during the year. We are also very fortunate to have the services of a number of specialist Directors and I would like to thank Nigel Smith for his Chairing of the Audit Committee and Roger Gillett for his work on all aspects of our risk awareness and the purchase of our reinsurance programme.

This year we said farewell to Giuseppe Bottiglieri. Giuseppe made a great contribution to our affairs and I would like to thank him on behalf of the Board for his many years of service. During the year three new Directors, Markos Nomikos, Jan Valkier and Yee Yang Chien joined the Board. I welcome them and look forward to their contribution to our affairs.

I would also like to take this opportunity to thank the Managers for their contribution to the significant progress the Club has made over the last few years and, in particular, for their work on the recently approved Internal Model.

Looking forward
At the time of writing this statement, we are a few months into our merger discussions with the Britannia Club. The Boards of both Clubs are now engaged in a process to determine whether a merger is possible and whether it will deliver value to the Members of both clubs. I believe this initiative provides us with an opportunity to create a world beating shipowner controlled P&I club which puts service first, and uses benefits of scale to deliver additional value to all the Members. There is still a lot of work to do on both sides to establish whether the merger will be possible. Ultimately, if the Boards decide to proceed, the final decision will rest with the Members of both Clubs.

In conclusion
Our financial results and the progress we have made in risk management, marked by the internal model approval, and in our governance structures, have placed us in an excellent position to meet the challenges of the coming years. There is a new confidence about the Club, which was evidenced by the success of this year's renewal.

I look forward to building on that confidence in 2016.

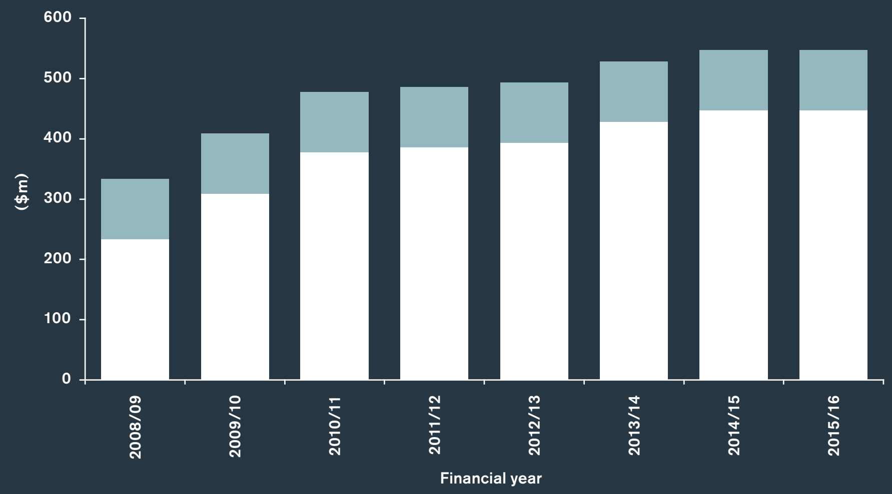
FINANCIAL HIGHLIGHTS

This is the 6th consecutive year the Club has maintained its combined ratio around the Club's target of 100%.

CAPITAL

- S&P rating of A (Stable) maintained
- Free reserves and Hybrid capital of $547 million (prior year: $548 million)
- Capital position maintained despite difficult investment markets
- Reserves per ton remain healthy at $4.05 down slightly since last year, following the Club's 6% tonnage growth in 2016

Free reserves and Hybrid capital for financial years 2009 – 2016

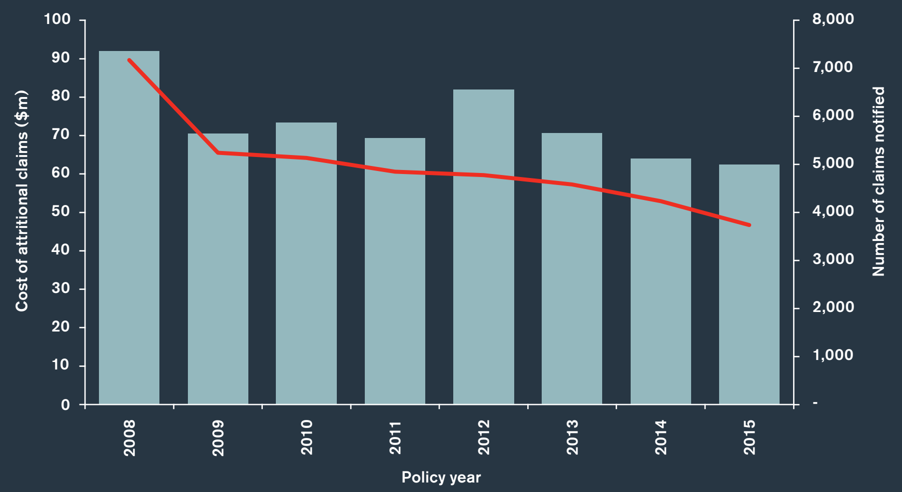


Key
- Hybrid capital
- Free reserves

CLAIMS FREQUENCY

- Further decline in the number of claims brought to the Club
- The number of claims over $2m notified in the 2015 policy year was less than half the average number, after 12 months
- Only 1 in every 100 claims costs more than $500,000

Attritional claims (<$0.5m) and claims frequency 2008 – 2015 at 12 months



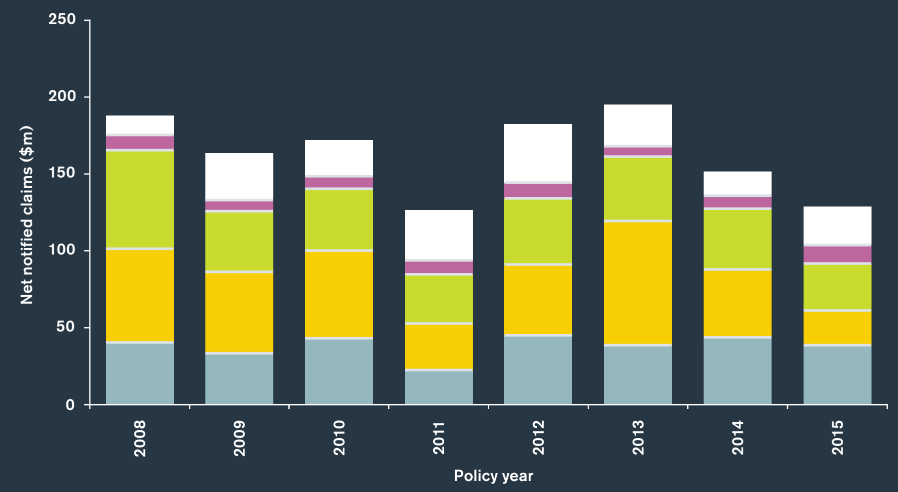
Key
- Cost of claims notified
- Number of claims notified

CLAIMS VALUES

- The Club's Pool share has reduced as a result of its exceptional record on the Pool
- Favourable casualty claims in 2015 reflects the low frequency of large claims
- Personal injury claims less significant in 2015

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

Total net notified claims for policy years 2008 – 2015 at 12 months by category

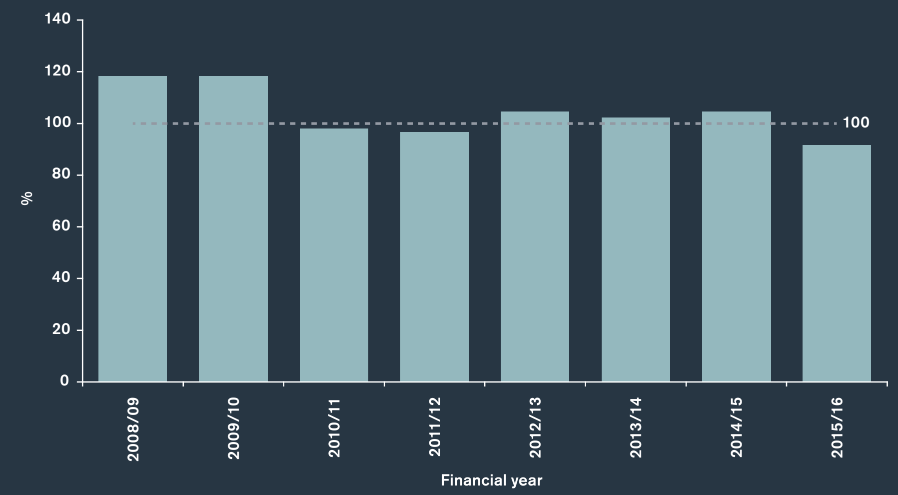


COMBINED RATIO

- The 2015/16 combined ratio was 92% (excluding currency gains and mutual premium discount)
- Underwriting discipline maintained
- Average combined ratio of 100% for the last 6 years

Key
- Combined ratio
- Target

Combined ratio for financial years 2009 – 2016

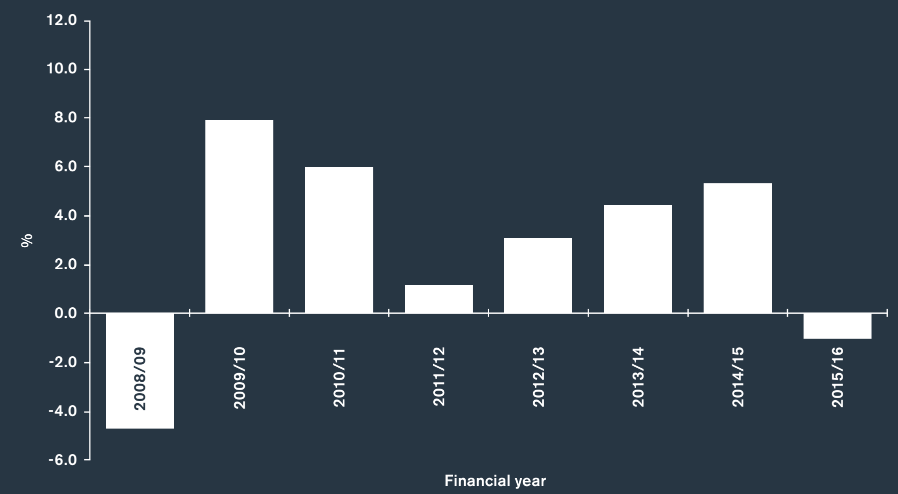


INVESTMENT PERFORMANCE

- Investment depreciation of $9 million
- Asset allocation remains prudent

Key
- Return as % of portfolio

Investment portfolio performance



UNDERWRITING

Analysis of the financial year combined ratio (excluding mutual premium discount) with and without the impact of currency.

Underwriting discipline
The Club seeks controlled growth whilst maintaining balanced underwriting results. Robust underwriting discipline, supported by a favourable claims environment, continues to deliver strong results. The Club has recorded six consecutive financial years with a combined ratio at or around the breakeven target. The average combined ratio over the last six years is 99.6%.

Underwriting result for the financial year (excluding mutual premium discounts).

	Year to 20/02/2016	Year to 20/02/2015
Loss ratio	77.6%	90.9%
Expense ratio	14.0%	13.8%
Combined ratio (excluding currency movements within claims)	91.6%	104.6%
Impact on the ratio of currency	(4.2%)	(7.5%)
Combined ratio (including currency movements within claims)	87.4%	97.1%

The investment portfolio is structured to match future cash outflows. All currency movements within claims are matched by equal and opposite movement in the investment portfolio. All currency movements are offset in the financial statements. The table shows the combined ratio both including and excluding the currency movements.

Growth
The Club had a successful renewal and continues to be attractive to new Members. Following the recent renewal, the total mutual tonnage entered into the Club had grown to 135 million gt. The Club is 6.8% larger than one year ago.

In addition to the new Members who joined the Club at the renewal, 97% of all existing Members by tonnage chose to remain with the Club at the 2016 renewal. Many of these Members committed further new-buildings due for delivery during the 2016 policy year. The commitment of new tonnage has rarely been stronger.

Risk selection
The Club welcomes shipowners of all sizes, across all trades and territories. The dominant underwriting criteria are operational quality and safety performance.

Growth over the last twelve months has not been achieved at the expense of the underwriting criteria, which remain robust. 15% of the business offered to the Club failed to meet entry criteria and was rejected.

Service remains paramount
The Club aims to build long-term relationships with all Members. Consequently, one of the Club's chief objectives is to ensure that all Members receive service of the highest quality. To that end, the Club continues to seek regular feedback from Members through formal surveys and day-to-day contact in order to ensure that service quality is enhanced.

Protecting our Members
The Club's well-established loss prevention and ship inspection programme is designed to identify, analyse and formulate strategies to mitigate risk and therefore minimise future losses. Helping Members to manage their risks is at the heart of the Club's business.

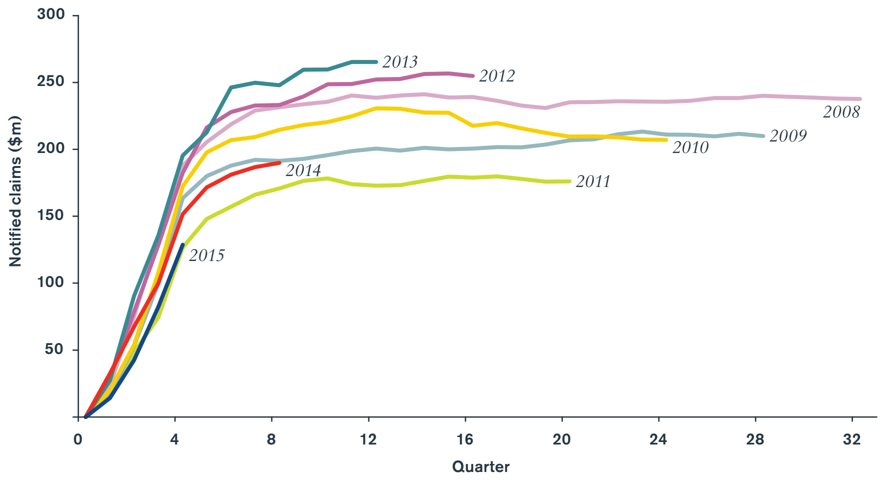
In response to an ever-changing environment, the Club dedicates substantial resources to loss prevention, helping to bring skill, knowledge and experience to this vital discipline. Owners develop preventative measures through policy, procedures, controls, education and training of their crew. The loss prevention department, with its experienced Master Mariners and engineers based in London and around the world, assist Members with these policies.

The Club aims to increase education and awareness of loss prevention, through a variety of mediums including hardcopy publications, DVD training videos, and, most recently, "Apps" for mobile devices. Loss prevention is a fundamental part of the service it provides to Members and continues to build relationships with technical and operations teams, offering constructive and interactive advice where needed.

CLAIMS

Providing our Members with exceptional claims service is at the heart of everything we do.

Figure 1: Net notified claims development for policy years 2008-2015, $m.

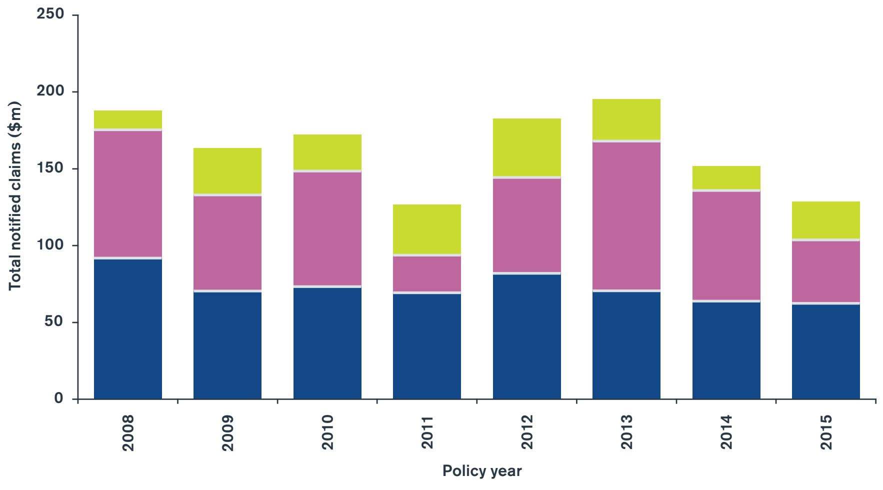


The 2015 policy year was a good claims year for the Club. The total cost of notified claims after 12 months is one of the lowest of the last decade. Overall the number of claims notified to the Club in respect of the 2015 policy year has fallen in comparison with previous policy years.

The number of large claims has a significant impact on the overall cost of the policy year, but very few claims in 2015 have exceeded $1 million.

The prudently reserved prior policy years have developed favourably over the last twelve months. This has allowed a reduction in claims provision without decreasing the overall confidence in the strength of the reserves. This reduction has contributed to an exceptional year for the Club with a reported combined ratio of 92%.

Figure 2: Total net notified claims for policy years 2008-2015 at twelve months by size.

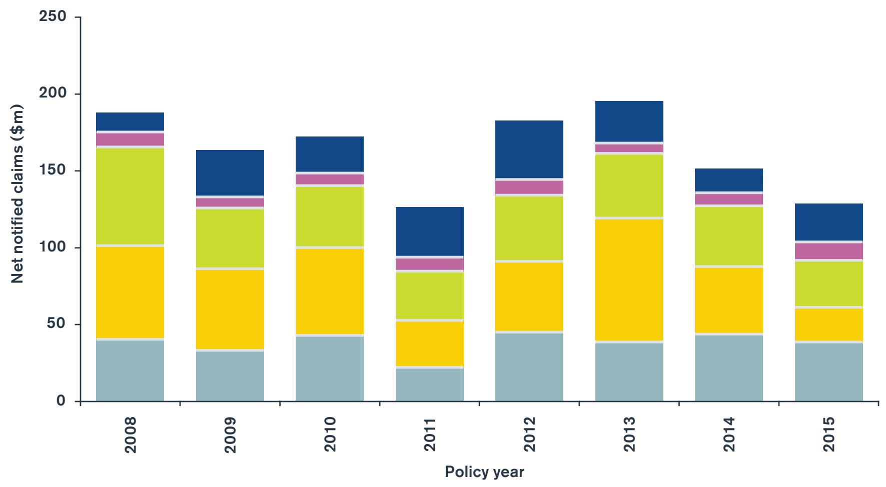


CLAIMS

After twelve months, the total cost of the 2015 policy year is 25% lower than the average of the last ten years and nearly 40% lower than the most expensive year over that period.

The year was also notable for the exceptionally low cost of casualty claims. These claims tend to relate to larger incidents and therefore the total cost of casualty claims is more volatile than other categories.

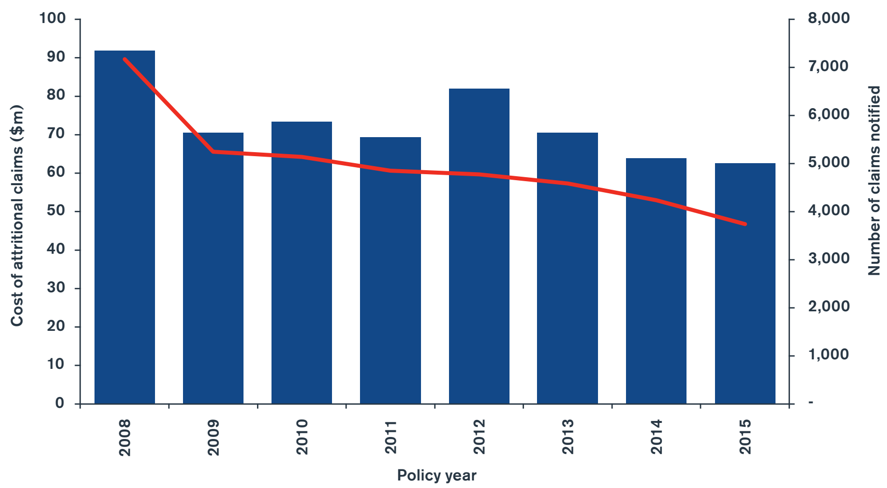
Figure 3: Total net notified claims for policy years 2008-2015 at twelve months by category.



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

Attritional claims

Figure 4: Number and average cost of net notified attritional claims for policy years 2008-2015 at twelve months.

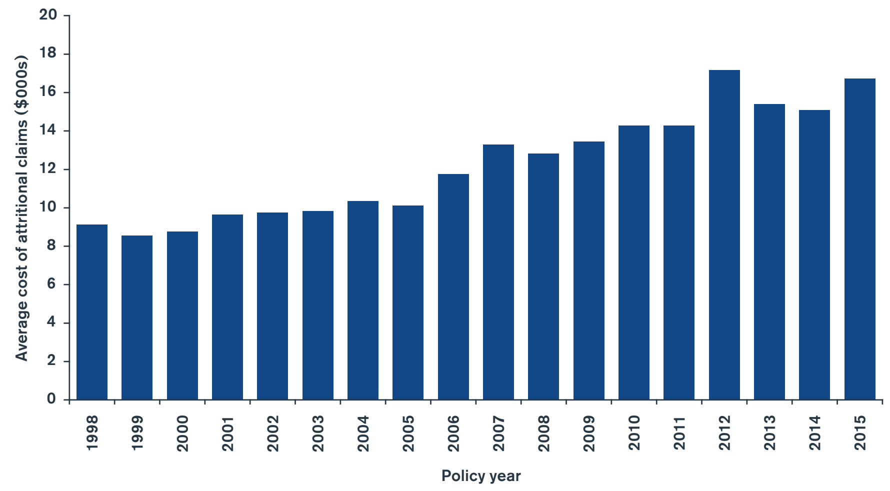


Key
- Cost of claims notified
- Number of claims notified

The number of claims notified to the Club has continued to fall across all categories of claim. Numerous factors influence the frequency of claims including the state of the global economy and particularly the dry cargo market, improved risk management, the average age of the fleet and increases in individual fleet deductibles. The number of claims brought to the Club today is just over half that of the peak during the shipping boom of 2007 and 2008.

Between the 2009 policy year and the 2012 policy year, the average cost of each claim was increasing at a faster rate than the decline in claims frequency. The total cost of claims has therefore been rising. However, since 2012 the reduction in claims frequency has been greater than the underlying inflation in claims. Despite this, the average cost of each attritional claim is inflating at over 4% each year and today the average cost is over 40% more expensive than a decade ago. The average premium rate per ton has reduced by 11% over the same period.

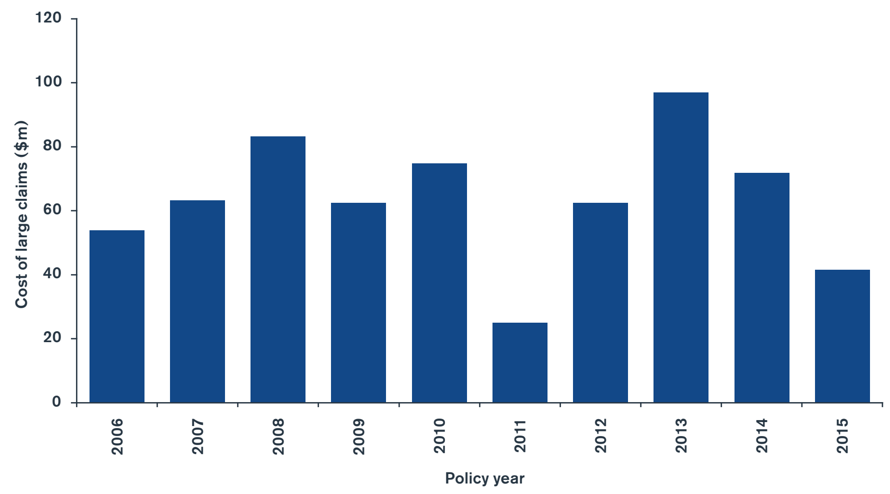
Figure 5: Long run average cost of a claim by policy year.



Key
- Average cost of attritional claims

Large claims (those in excess of $0.5 million)

Figure 6: Net notified large claims (>$0.5m) for policy years 2006 - 2015 at twelve months, $m.



Key
- Cost of claims notified

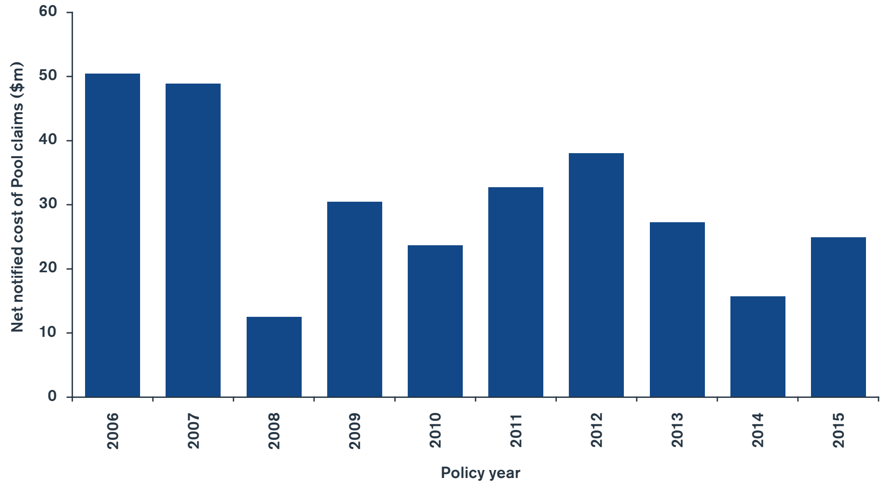
Although the number of large claims notified to the Club is low, the impact of these claims on our Members and on the Club is considerable. In aggregate, these claims can represent up to half of the total claims cost of any given year. Large claims are more random and therefore less predictable than attritional claims. It is principally the large claims that bring volatility to the claims cost of the policy year.

CLAIMS

Protecting the Club
The Club has purchased specific reinsurances to protect against claims volatility. These reinsurances responded to the escalation in the number of large claims in the 2013 policy year.

In addition, the strong capital position of the Club enables it to absorb more expensive policy years without disturbing its ability to achieve its long-term strategic objectives. As the Club looks to achieve its strategic objective of greater scale, the volatility of large claims becomes less significant. This greater predictability enables more accurate forecasting and more efficient reinsurance purchase.

Figure 7: Club's share of Pool claims (net of own reinsurances) for policy years 2006-2015 at twelve months, $m.



Key
Net notified Pool claims

As a result of the Club's excellent Pool claims record, its percentage contribution to Pool claims is well below the Club's market share of group tonnage. In an average year this improves the Club's claims cost by $12 million and reduces the combined ratio by 4%.

Nine claims were notified to the Pool during the first twelve months of the 2015 policy year. None of these claims were notified by the UK Club. Therefore the Club's credit balance on the Pool of nearly $140 million, which is not included within the free reserve has been protected for another year.

REINSURANCE

International Group reinsurance claims
Though not as benign as the previous three years, the 2015 policy year was the fourth consecutive year of relatively favourable performance for claims reported to the International Group's reinsurance contract. Based on current estimates, only one claim exceeds the Pool retention of $80 million. However, it is possible that this one claim could be of greater significance than any since the Costa Concordia in the 2011 Policy Year.

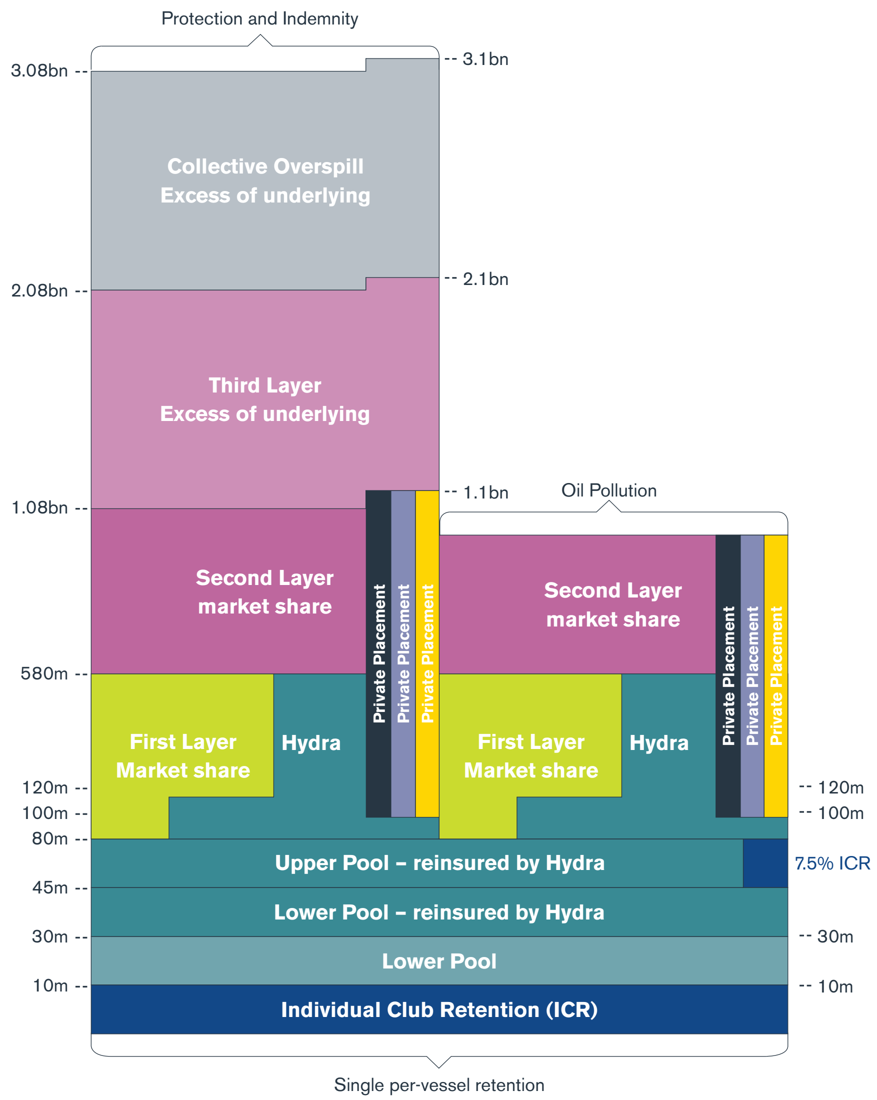
After a number of years of development, the two large claims that shaped the expensive 2011 policy year have remained stable during 2015.

Structure of the Pool and International Group reinsurance programme for 2016
For the 2016 policy year, the individual Club retention has been increased from $9 million to $10 million. Other than minor simplifications to the individual Club retention proportions above $45 million, there are few changes to the Pool structure below the reinsurance attachment point of $80 million.

A third 5% 36-month Private Placement of $1 billion excess $100 million has been included within the structure. The three Private Placements open the contract to new markets and wider capacity. The Hydra share has been maintained.

The diagram below illustrates the structure of the Pool and Group general excess programme for 2016/2017.

International Group excess loss reinsurance contract for 2016/2017
General Excess of Loss Reinsurance Contract Structure
Owned Entries (including Overspill Protection, Hydra Participation, Pooling and Individual Club Retentions)
12 months at Noon GMT February 2016.



Owned Entries
2014 - 16 Multi-Year Private Placement
2015 - 17 Multi-Year Private Placement
2016 - 18 Multi-Year Private Placement
Reinsured by Hydra

INDUSTRY ISSUES

Industry issues
As usual, the Managers provided throughout the year website information to Members, and regular reports to the Boards, regarding industry issues involving maritime liability, many of which were the subject of work carried out collaboratively in sub-committees of the International Group (IG).

The Managers continued to be energetic contributors to the affairs of the Group, providing the current Chairman of the IG Managers, the Chairmen of a number of influential IG subcommittees, and participants in many other sub-committees. The UK Club continues to be a strong supporter of the mutual system and places great value on the continuing ability of shipowners through the IG to have a voice at IMO and to influence the development of international maritime law.

Ballast Water Management Convention
The Ballast Water Management Convention was adopted by IMO in 2004 and will enter into force twelve months after ratification by at least 30 states representing at least 35% of global tonnage. Three ratifications in late 2015 brought the total number to 47 states and created considerable speculation at the beginning of 2016 that the tonnage threshold had been reached. However, recalculated figures from IMO published in January 2016 confirmed that the global tonnage represented by ratifying states was 34.56 percent, remaining just below the threshold for entry into force, which therefore remains at least another year away.

The Club has been participating in the work of an IG Working Group to study the requirements of ballast water legislation and to assess the implications of new ballast water regulations for the Club's cover, having regard to potential liabilities for fines or for environmental damage claims.

As ever, it remains a key benefit of the mutual system that any decision to extend cover to respond to new risks will lie in the hands of the shipowners themselves, participating as Club Directors and voting as Members on any necessary Rule changes.

Maritime Labour Convention
Last year's review noted that the Board had decided that the Club should provide enhanced financial security which would be required to respond to up to 4 months unpaid wages, to be included in amendments to the MLC expected to take effect by January 2017.

During 2015, the IG's MLC Working Group considered a number of technical issues relating to provision of cover, provision of financial security in respect of wages, repatriation liability on abandonment, and reinsurance of aggregate exposure. In view of the complexity involved, it was felt that Clubs should provide the required financial security by means of a commonly agreed wording endorsed on Club certificates of entry, rather than by detailed changes to Club Rules.

A separate issue is that of evidencing the financial security to third parties, including ships' crews. Unlike other international conventions in shipping, where the Flag State issues a certificate to confirm that financial security is in place (evidenced by a 'blue card' from a P&I Club), the MLC provides for the confirmation that financial security is in place to be issued by the provider of that security. The Clubs are liaising with each other and with the ILO to finalise the form of the certificate wording. Further advice will be provided to Members later in 2016.

UK Insurance Act 2015
The Board received a report on the UK Insurance Act 2015 which will enter into force in August 2016 during the 2016/17 policy year. The new Act makes significant changes to English insurance contract law enacted in the Marine Insurance Act 1906 ("1906 Act"), and its provisions would potentially apply to the eight Group Clubs whose rules are subject to English law. However, with the primary objective of the changes perceived to be the protection of consumer interests, and Club Members having considerable familiarity with the policy wordings embodied in their Rule Books, the eight Group Clubs concerned decided to contract out of most of the provisions of the new Act, save for those that provide for the insured to make a "fair presentation of the risk" (Sections 3 – 7 of the new Act) in place of the pre-contractual obligation on an insured under the 1906 Act to disclose every material circumstance known to him.

Full details were provided to Members in a circular towards the end of the policy year and the necessary Rule changes were voted in by Members at the SGM in January.

Sanctions
Sanctions continued to be a subject of many enquiries from Members during the year, as political efforts to engage Iran in discussion of possible changes to its nuclear programme resulted first in an extension into 2015 of the Iran Joint Plan of Action, and in July 2015 the agreement between Iran and the P5+1 (five permanent members of the UN Security Council, plus Germany) characterised as the Joint Comprehensive Plan of Action (JCPOA).

Under the JCPOA, Iran undertook measures designed to ensure that its nuclear programme would for a period be restricted to peaceful purposes, upon verification of which the P5+1 would lift nuclear related sanctions.

Confirmation from the International Atomic Energy Agency on 16th January 2016 that Iran had altered its nuclear programme in accordance with its JCPOA obligations, coupled with the immediate announcement of lifting of EU primary and US secondary sanctions, led to a surge of interest from Members in the prospects of maritime trade with Iran.

However, while the Clubs found themselves newly permitted to insure Iranian related risks, US primary sanctions continued to affect US domiciled companies on the IG's reinsurance programme, creating a risk of shortfall in recovery that in some circumstances would have fallen back on the shipowner Members of clubs. This was rapidly identified as a risk not confined to Iranian shipowners or those trading to Iran, but one potentially affecting any shipowner who might incur a claim with an Iranian connection through collision, transhipment or other fortuities.

An interim solution has been put in place by the purchase of back-up reinsurance, outside the US, to cover a shortfall on claims up to $1 billion. However, the longer term objective is to secure adequate licencing arrangements, so that the global P&I cover that is essential to maritime trade operates without risk of prejudice by the fortuity of an Iranian nexus to a claim.

Sanctions remain a popular instrument for governments to exert influence by economic pressure and shipowners will continue to face challenges in this area going forward, with new sanctions on Syria and North Korea taking effect as the policy year came to an end.

Piracy
The Board received an update on piracy off West Africa, which continued to present a serious problem to owners trading to the Gulf of Guinea. While piracy off West Africa has focused more on armed robbery and cargo theft (by hijacking and transferring cargo to smaller vessels), there has been an increasing trend in 2015 of using violent attacks to kidnap crew and hold them separately for ransom away from the ship. Arrangements to address the problem by use of armed guards sourced from the Marine Police or the Nigerian Navy have proved to carry their own risks, associated with jurisdictional disputes between the different authorities. Our 2015 Review of the Year noted that piracy in the region was likely to remain an active issue, and it is a matter of regret that the picture a year later shows no discernible improvement.

Pollution matters
The Board received reports on positive developments relating to several Oil Spill Response Organisations in the US whose contracts had been amended to conform with IG Guidelines, removing the need for additional insurance. In a less positive development, a report was submitted on efforts of the Managers to assist Members trading to China following closure of the business of one of the largest Chinese Spill Response Organisations (SPRO) following investigation by Chinese Customs Authorities.

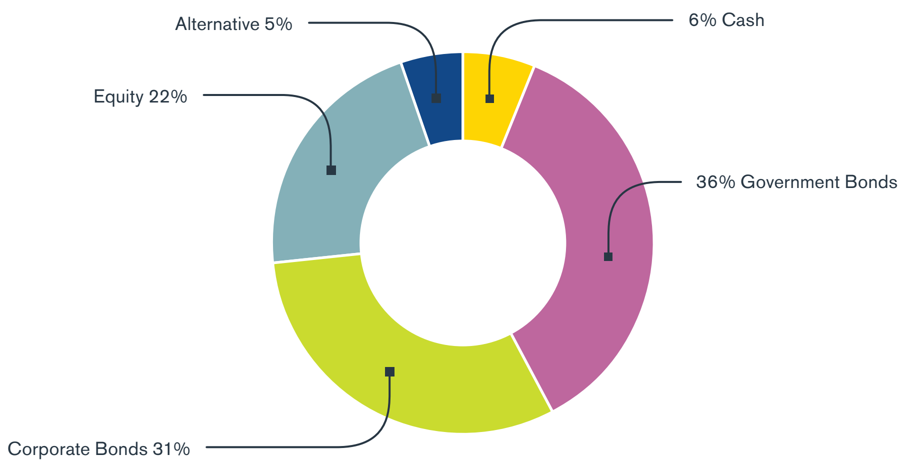
LLMC 1996
The attention of Members and Directors was drawn to an increase in liability limits under this convention. Prompted by a number of high profile bunker pollution incidents, notably the Pacific Adventurer incident in Queensland, Australia in 2009, the limits of liability under the LLMC 1996 Protocol were increased in 2012 by 51%, but only came into force with effect from 8th June 2015.

INVESTMENTS

Economic background and investment returns
2015 was a very challenging year for investment returns. The combination of concerns over the Chinese economy, sharply declining energy markets and the prospect of rising interest rates all combined to dampen investor sentiment. Divergent central banking policies also heightened volatility within currency markets.

Risk assets struggled against this backdrop and the equity portfolio declined by 11%. Bond yields remained at low levels and consequently fixed income portfolios were able to deliver positive performance. However, the decline in risk assets dominated and the overall portfolio return was -1% for the financial year.

Figure 8: Asset allocation at 20th February 2016.



REGULATION AND GOVERNANCE

After a number of years of uncertainty, the new regulatory regime for insurance firms in Europe, Solvency 2, came into force on 1 January 2016.

The Club's underwriting vehicle, UK Europe, sits under this solvency regime as an entity based in the UK.

The Club's extensive preparation has facilitated a smooth transition to the new regime. Part of this preparation has been to secure approval from the regulator for the treatment of a number of elements of the capital calculation.

The most complex regulatory approval related to the Club's internal model. This sophisticated model is employed within the business to facilitate financial and capital management and help the Board determine the impact of key strategic decisions.

The Board was delighted to hear that the Club was one of a select number of firms to receive approval to use an internal model to determine regulatory capital requirements. The model is specifically tailored to the UK Club, and therefore provides a more accurate and comprehensive view of the Club's risks, which in turn enables the Club to hold less capital than if the more general standard factors were to be applied.

CAPITAL MANAGEMENT

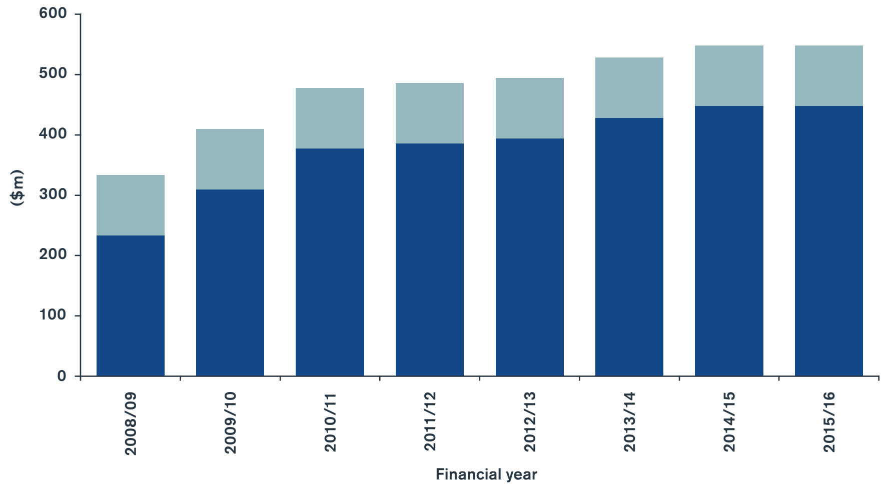
Capital strength provides the foundation on which the Club will achieve its goal of maintaining long term financial strength.

Capital strength and appetite for risk

The Club's free reserves stand at $448 million with $99 million of hybrid capital taking the overall free reserves and hybrid capital to $547 million.

Six successive years of balanced underwriting has underpinned the Club's capital strength. This has enabled the Club to maintain or increase capital strength even in years where claims cost has been elevated, such as 2013, or investment markets have been unfavourable, such as last year.

Figure 9: Growth in the Club's free reserves and capital, financial years ending February 2009-2016, $m.



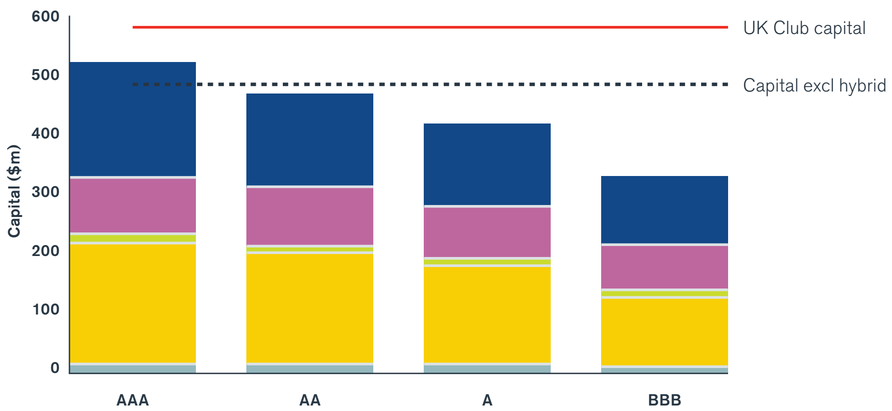
Key
Hybrid capital
Free reserves

The Club seeks to manage capital by utilising risk management techniques including the purchase of reinsurance. The Club determines and monitors the effectiveness of these techniques through application of its approved internal model.

The Club's target is to hold sufficient capital to cover regulatory and rating agency requirements, plus an appropriate buffer. This buffer is designed to enable the Club to continue to meet its capital targets in the event of a very adverse year.

The Club's capital meets the AAA requirements of the S&P model when Hybrid capital is included and AA based on free reserves alone.

Figure 10: Composition of S&P capital requirement compared to Club's capital February 2016.



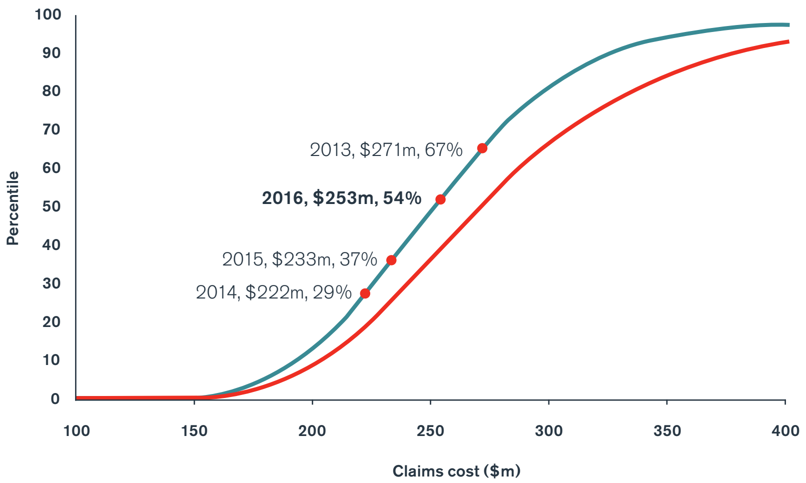
Key
Reserve risk
Premium risk
Concentration risk
Market risk
Credit risk

Volatility

Although risk management techniques can be used to mitigate volatility, it is not possible to remove it entirely.

The graph below shows the probability of various claims outcomes for the 2016 policy year. This analysis assists the Board when setting the premium required to meet the mean claims outcome of the forthcoming year. The Club uses its retained capital to meet the cost of claims above the mean level.

Figure 11: Probability range of claims outcomes 2016 policy year net of Club's reinsurances and Pool reinsurance.



Key
Net
Gross

UK P&I CLUB GLOBAL NETWORK

UK P&I CLUB