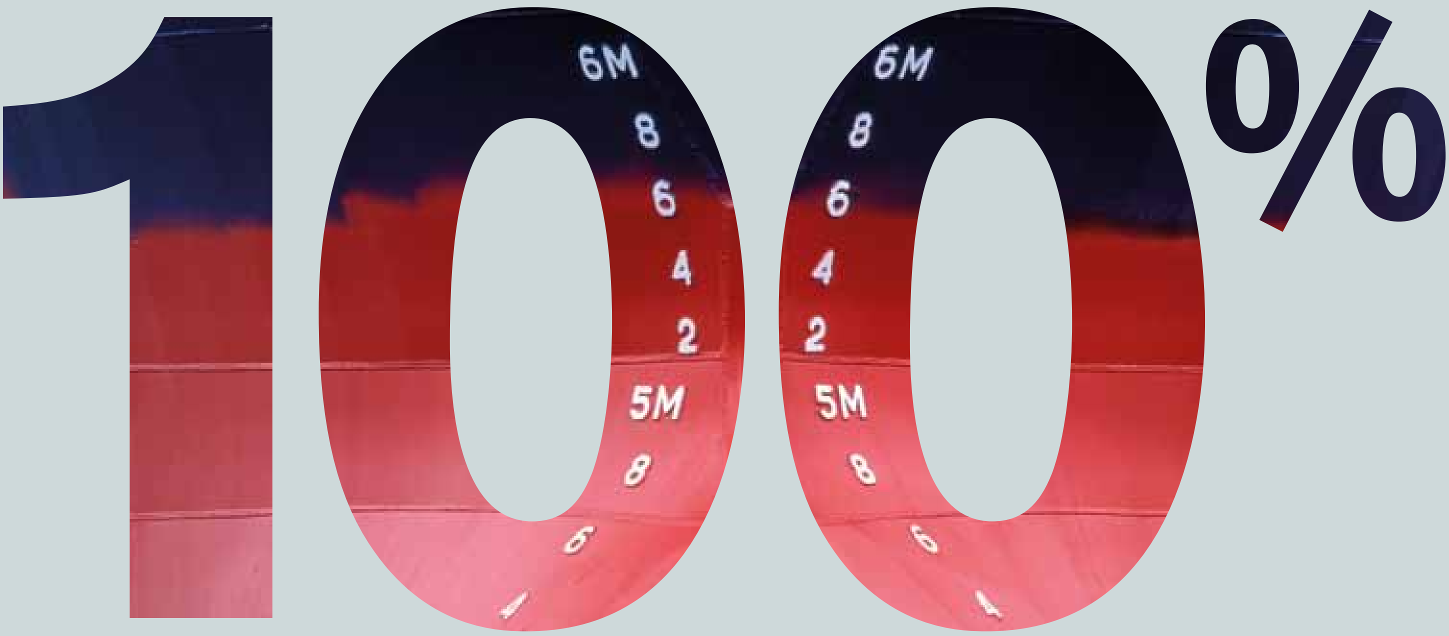
UK P&I CLUB

Review of the year 2012



100% Clarity

$1.6bn

Assets

$486m

Free reserves and hybrid capital

162%

Free reserve ratio

97%

Combined ratio

100% Clarity

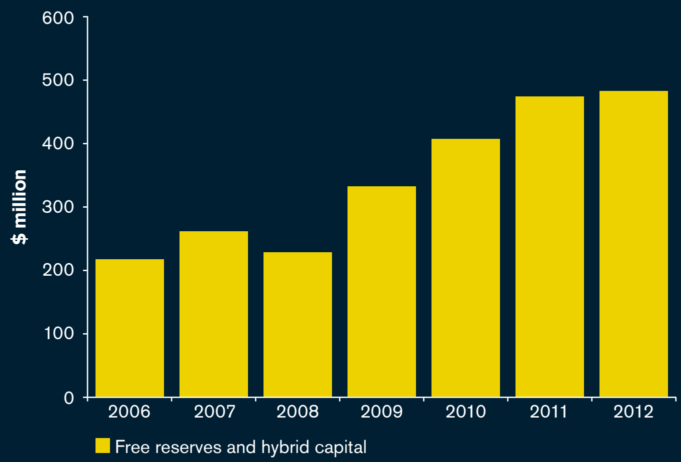
The Club has successfully rebuilt its capital position and continues to deliver the highest quality of service to members in what have been volatile and challenging times.

Financial Highlights
Combined ratio for this year is 97%. Another year of balanced underwriting.

Financial strength

- Free reserves and capital increased from $478m to $486m
- Free reserves and capital $4.33 per gross ton
- A- stable S&P rating

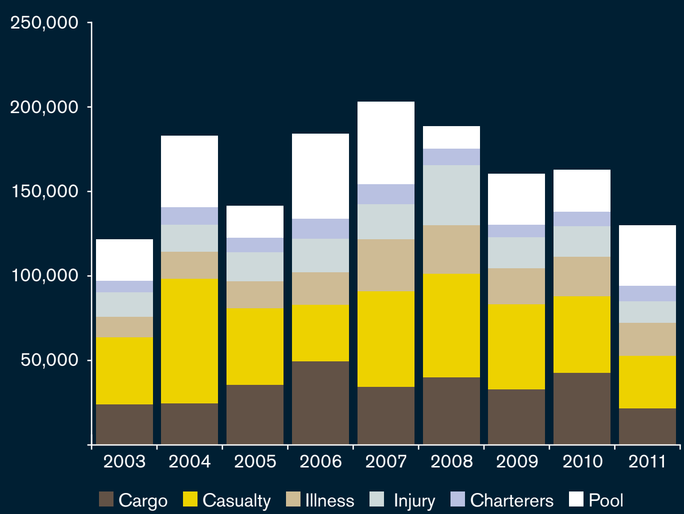
Capital & reserves for financial years 2006 - 2012



Claims values

- Attritional claims for 2009, 2010 and 2011 following similar trends
- Very low incidence of large claims in 2011
- Prudent approach to reserving maintained
- Pool credit balance of $69m

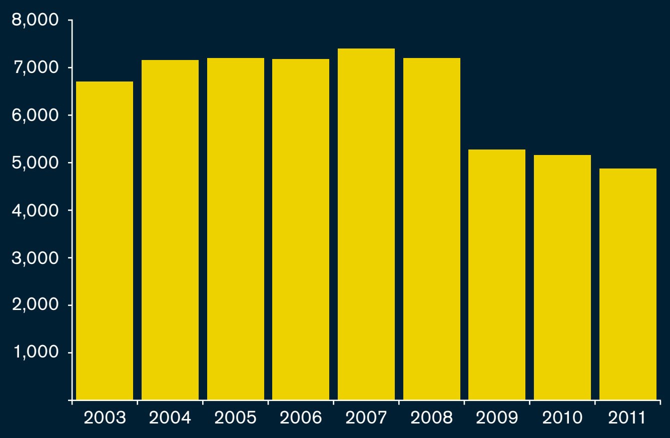
Net notified claims at 12 months ($000s)



Claims frequency

- Significantly reduced over last 3 policy years
- Frequency down for all classes of claim
- Anticipated to increase when shipping markets recover

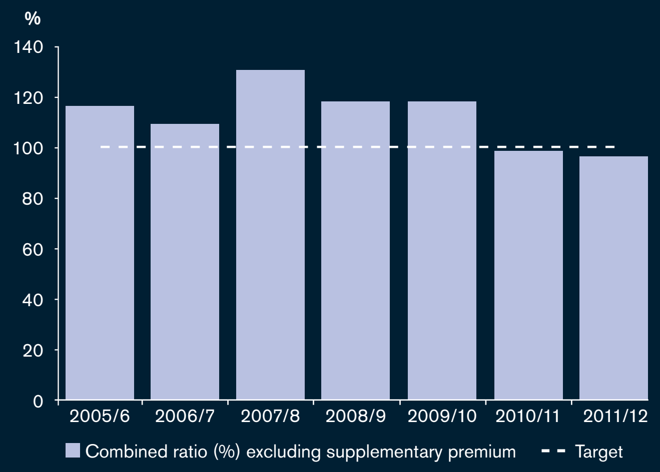
Number of claims at 12 months by policy year



Underwriting discipline

- 2011/12 combined ratio 97% on financial year basis (average combined ratio for last 4 policy years at 97%)
- Last two financial years below 100%

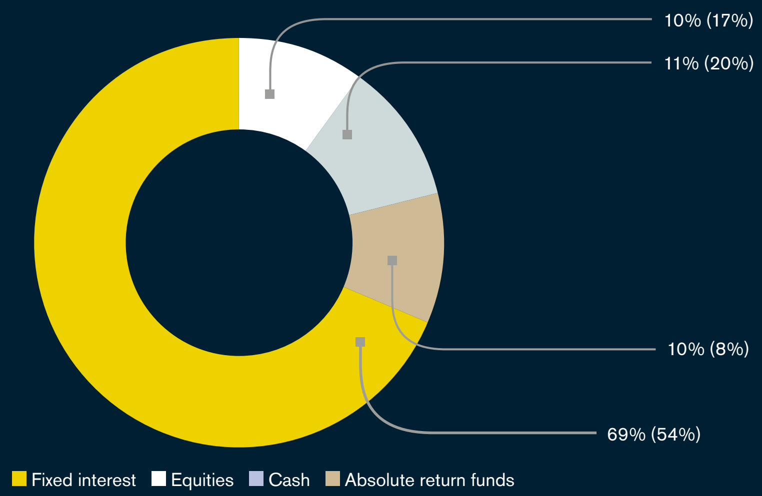
Combined ratio for financial years 2006-2012



Investments portfolio

- Investment return of $18.6m for 2011
- Portfolio de-risked autumn 2011 in light of market conditions
- Preservation of members' capital adopted as Club's investment strategy at a time of uncertainty and market volatility

February 2012 Asset Portfolio (February 2011 percentages in brackets)



Good result in difficult times

The Club is now in the top level of the International Group in terms of financial strength.

This year the Club achieved another operating surplus and a further increase in the free reserves and capital to $486 million. This level of capital puts the Club's financial strength at the top level of its peer group in the P&I sector. This result is particularly pleasing as it comes in a year which has seen results elsewhere in the market adversely affected by an increase in claims and volatile investment returns.

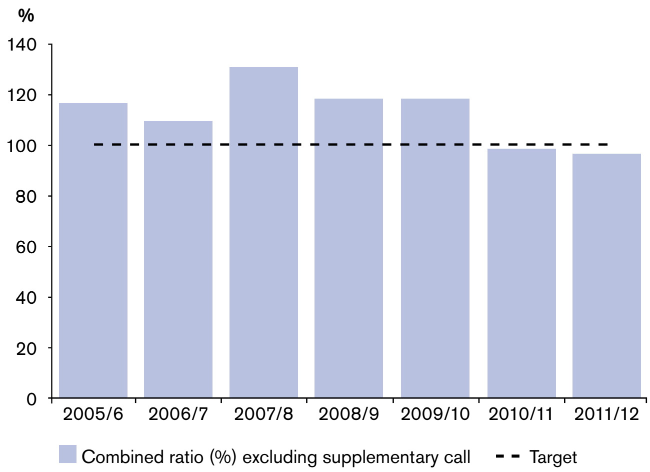
Overall the Club produced a surplus of $11 million. As is explained later in this Review, the result reflects continuing improvement in the claims reserves on the more recent policy years underpinned by a consistent approach to underwriting discipline and the quality of the Club's membership. The Club now has $1.6 billion in total assets and a free reserve ratio of 162 per cent, which places it in the top level of the International Group in terms of financial strength.

Balanced underwriting

Most importantly of all, the Club has achieved a balanced underwriting result for the second successive financial year, with a combined ratio of 97 per cent. This very positive result underlines the Club's commitment to its long term target of maintaining a combined ratio of 100 per cent or better.

It is important that the Club continues to aim for a combined ratio of 100 per cent or lower, since past experience has shown how quickly reserves can be reduced by successive underwriting deficits, even when starting at an apparently healthy level.

Combined ratio for financial years 2006-2012



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 per cent 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.

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.

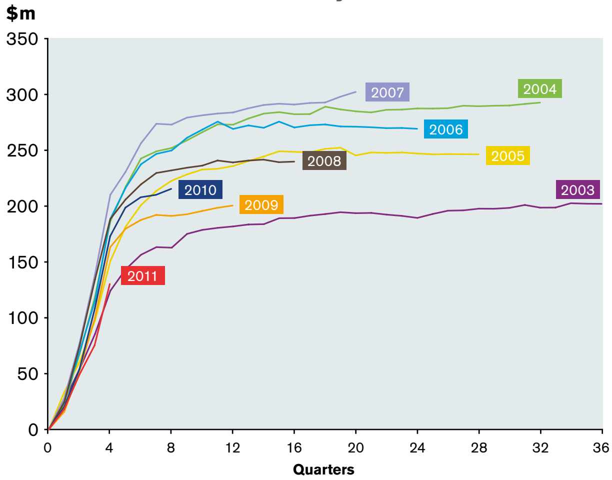
Lower claims

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 per cent on 2010, itself a low year for the number of claims, and some 30 per cent lower than the number of claims in 2007, leading to a reduction in the overall cost of claims. At the twelve month stage, net notified claims on the 2011 policy year are $130 million compared to $163 million for 2009 and $172 million for 2010. Most significantly, the Club's exposure to the larger claims (those exceeding $2 million) in 2011 was below the experience of recent years; the total cost of larger claims retained by the Club in 2011 was approximately 15 per cent of the historical average.

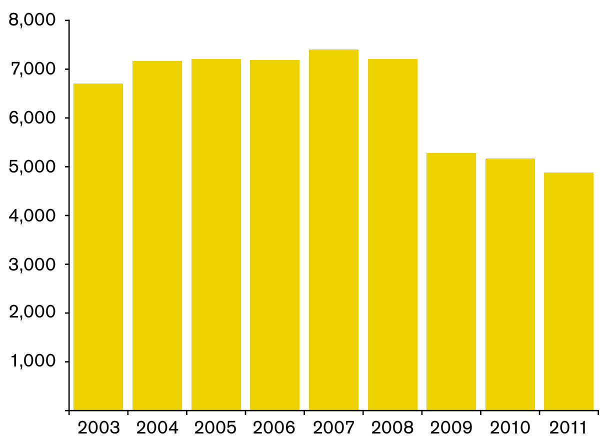
Clearly the reduction in world trade since the boom years in shipping in the middle part of the last decade has had a significant impact on the volume of claims. There is also an element of good fortune in the 2011 result as larger claims generally tend to be casualty claims such as collision and pollution, which by their very nature are random in occurrence. Therefore there is no basis to assume that the very low impact of large retained claims in 2011 will be repeated again in the current policy year.

The Club has also been able to contribute proactively to the reduction in claims by careful management of risks; from monitoring the Club's entry criteria, an extensive loss prevention programme, and strong claims management, through to the purchase of reinsurance designed to avoid the problems the Club faced when claims spiked at the height of the shipping boom. Looking back now to those high claims years, it is interesting to note that even at that time the UK Club's record on the International Group Pool was well below the Club's share of the Pool, which explains why the UK Club still has the largest credit balance on the Pool.

Total net notified claims for policy years 2003-2011 at 20th February 2012



Number of claims at 12 months by policy year



Improved claims position since 2008 largely due to reduced frequency of claims.

Despite the improving claims position the Club has maintained a prudent approach to claims reserving. The 2011 policy year is only one year old and given that policy years can develop adversely after the first year, the Club has taken a cautious approach when setting the expected overall claims outcome. Nonetheless, it is expected the year will continue to improve which is a comforting position to be in going into the 2012 policy year which could produce a higher level of claims.

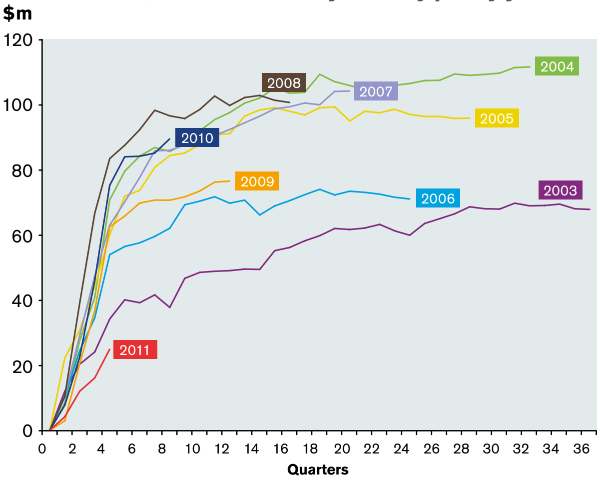
While the Club has not yet brought any claims to the Pool in 2011, the year was notable for two significant and high profile claims on the Pool; the RENA and the COSTA CONCORDIA. Although claims on the Pool are running below their peak in 2006 and 2007, they are still significantly higher than the most recent three policy years. However, even if there is significant deterioration in the Pool on 2011, the Club is protected by its own Pool reinsurance policy which effectively caps the Club's exposure for 2011.

Claims inflation

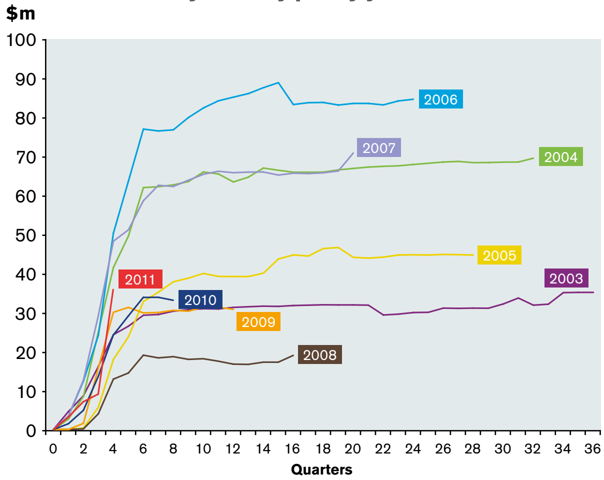
The current reduction in claims frequency should not be grounds for complacency concerning future claims inflation. The underlying long term average cost per claim has been inflating at about five per cent each year, with some categories of claims inflating at rates of up to 15 per cent. Indeed, personal injury claims have been one of the most costly categories of claims in the past decade and were exacerbated by rising medical costs and wage inflation. Illness claims, albeit less costly and shorter in development, have shown a similar trend to injury claims.

While shipping markets remain depressed, it is expected that the total cost of claims will remain lower. But, improvements, even in regional markets could quickly change the position. It is essential premiums charged by the Club keep moving forward at subsequent renewals.

Net notified claims > $0.5m (capped at Pool retention) at 20th February 2012 by policy year



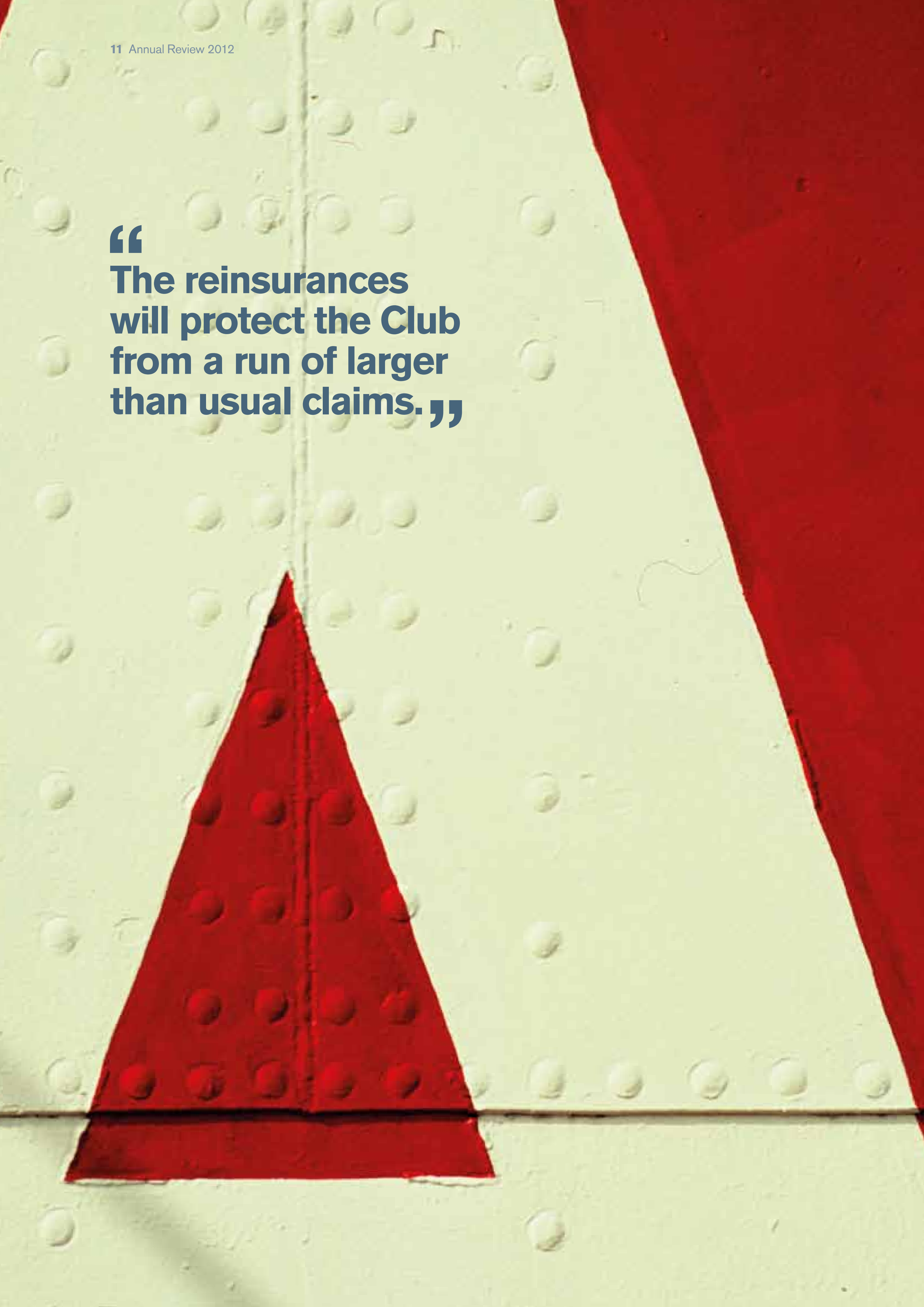
Clubs share of net notified Pool claims at 20th February 2012 by policy year



Comprehensive reinsurance

To ensure that the Club is protected against an adverse movement in claims, the Club has renewed its comprehensive reinsurance programme for 2012, using the internal model developed for Solvency 2 compliance to design the programme. The reinsurances will protect the Club from a run of larger than usual claims, whether within its own retention or the Pool. They will also protect the Club from a one-off very large claim. Although these reinsurances will not turn a bad year for claims into a good year, they will protect the Club from the worst effects of a surge in claims.

The main change in the International Group Excess of Loss Reinsurance contract from 2011 relates to the sharing of claims in the Upper Pool layer between $45-60 million where the club bringing the claim retains ten per cent of the cost, with the remaining 90 per cent being shared between all clubs on the basis of net weighted tonnage (tonnage adjusted to reflect reinsurance contributions). The UK Club's record on the Pool continued to be very satisfactory with a loss record of 92 per cent amounting to a credit balance of $69 million.

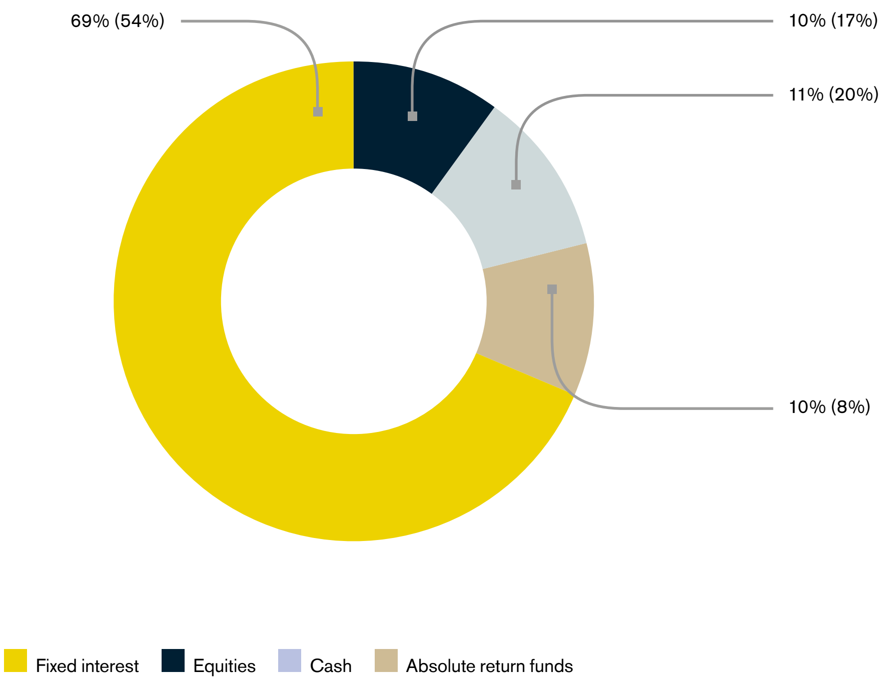


"The reinsurances will protect the Club from a run of larger than usual claims."

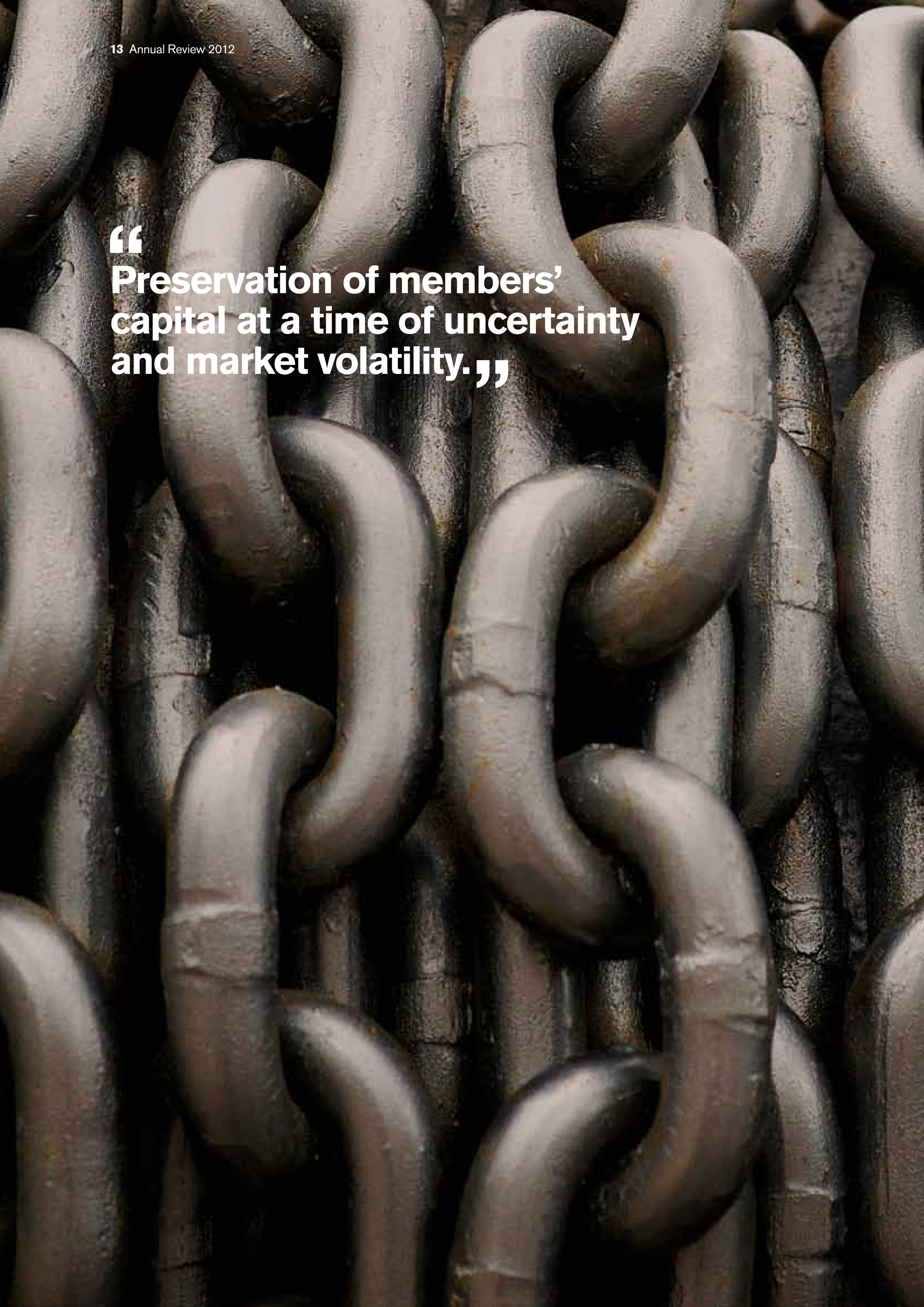
Positive investment return

Investment income contributed $18.6 million to the overall result in 2011. This is a lower return than last year, but a result which reflects the decision of the Club to reduce risk in its investment portfolio. Although the Club's investment portfolio was not directly exposed to the most affected areas, it was decided, in the light of the ongoing Eurozone crisis and heightened geopolitical concerns, to lower investment risk. The proportion of the funds held in equities was reduced from about 15 per cent to about 10 per cent of the portfolio. The proceeds from the sale of the equities were invested in short duration fixed interest securities. Following a strong rally in equities since the end of last year, these measures have inevitably reduced the return for the year, but a strategy aimed at the preservation of members' capital was the sensible approach to adopt at a time of uncertainty and market volatility.

February 2012 Asset Portfolio
(February 2011 percentages in brackets)



“Preservation of members’ capital at a time of uncertainty and market volatility.”



Continuing Club support

Political issues

A recent trend has been a change in the way that trade sanctions are imposed on other countries by the United States and by the European Union. Sanctions are being imposed that prohibit bankers and insurers from providing services to shipowners who trade legally with embargoed nations. Providers of such services may find that they are the subject of potential criminal penalties if they unwittingly breach these sanctions.

The UK Club and the other IG Clubs have been drawing the attention of governments to the potential risks to innocent third parties from sanctions legislation on liability insurance, but with little evident success thus far. Sanctions of this type have been imposed on Iran and Syria and the trend seems likely to continue. The Club has co-ordinated advice and support for members via a specialist section of its website that includes its work with the International Group as well as legal and government advice.

Piracy remains a major issue for ship owners trading almost anywhere in the Indian Ocean and the Arabian Sea, and more recently in West Africa. Whilst it is encouraging that the number of successful attacks has diminished in recent months, helped by better awareness of Best Management Practices (BMP4), and the more widespread use of armed guards on board, the latter raises a number of issues for ship owners.

The Club receives many requests from Members for assistance on contractual issues that arise from piracy. These range from charter party clauses to armed guard contracts, and from issues of insurance cover to the transportation and rules for use of firearms. Although the Club is not directly involved in paying ransoms to free ships from piracy incidents, the Club sees claims from seafarers in the aftermath of attacks and, through the International Group, is heavily involved in discussions with governments, the military and industry bodies to progress issues of concern to ship owners.

Strategic guidance to owners and operators on the problems they face.

Risk management initiatives

After much study and in-depth trials with shipowners, the Club launched an innovative risk management scheme utilising a 'BowTie' approach to identifying areas of risk and minimising the occurrence of incidents. This approach offers strategic guidance to owners and operators on tackling the root cause of expensive claims. Using quantified real-life case examples owners and operators are able to invest proportionately in risk management and loss prevention activity.

The Club's loss prevention team also produced a considerable number and variety of specialist loss prevention materials covering tanker, dry bulk and container cargo issues, navigational issues such as ECDIS and people claims such as stowaways and personal injury risks. A new DVD, "The Missing Link" covered the causes of mooring accidents and steps that can be taken to make the mooring process safer. PEME, the Club's pre-employment medical scheme, passed the milestone of its 250,000th seafarer medical examination.

All these materials are freely available on the Club's website – www.ukpandi.com – as well as being highlighted to members through the weekly "Latest Update" and loss prevention email bulletins.

Further help and guidance

A wide variety of advice and guidance was also published on the Club website, and occasionally in hard copy. These kept members abreast of such developing issues as the implementation of Chinese pollution legislation, port access and radiation concerns subsequent to the Japan earthquake and tsunami, sanctions against Libya, Iran and Syria as well as topics of regional interest.

Solvency 2

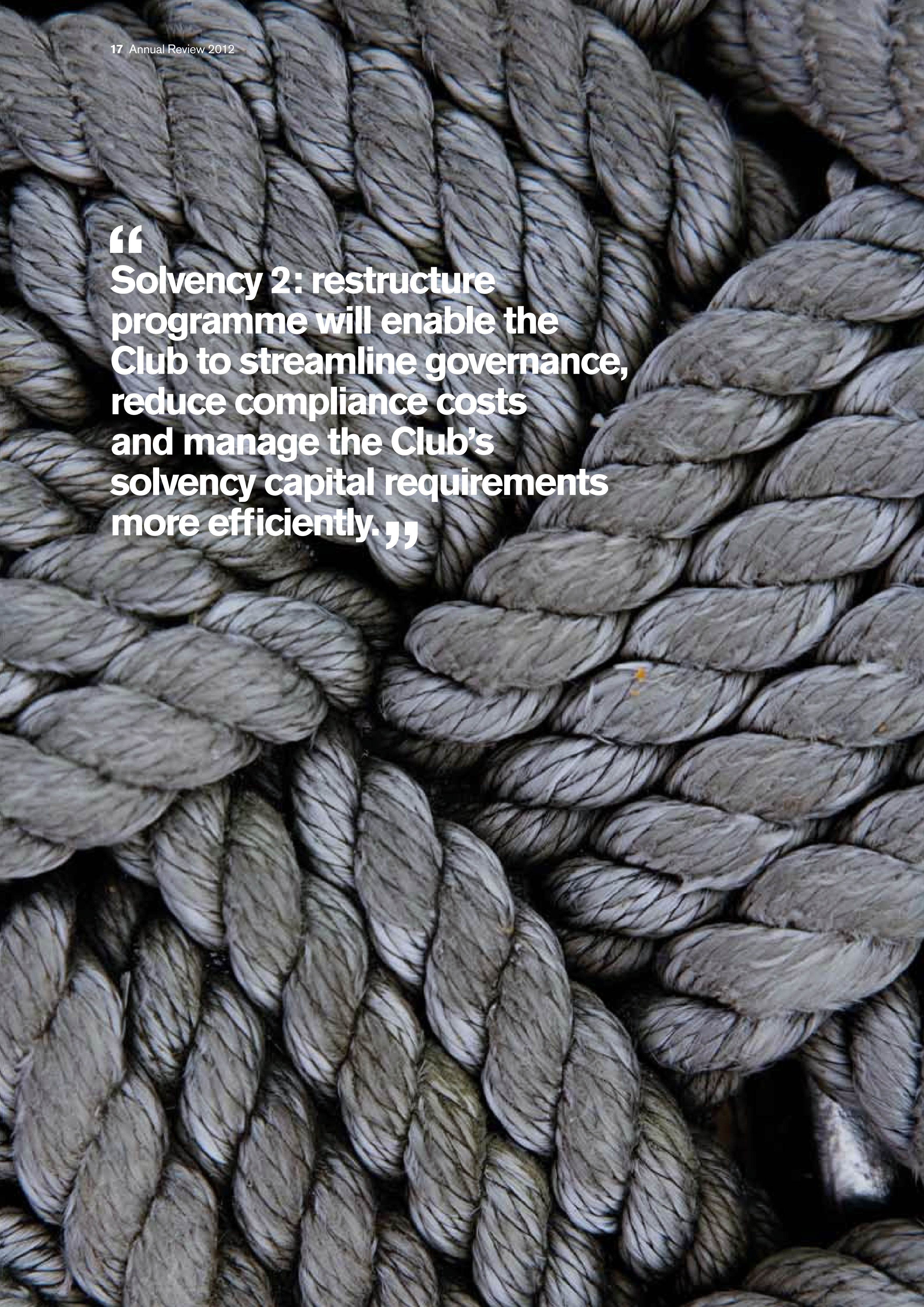
Capital modelling

As the deadline for Solvency 2 compliance approaches, the Club continues to make good progress. The key focus of the Solvency 2 work during the year has been the building of the Club's internal model and its approval through the Internal Model Approval Process (IMAP). The model focuses on insurance and counterparty risks.

Built by the managers' own actuarial team the model has been independently reviewed by a major firm of accountants and actuaries to provide further assurance of its robustness. The model has been used in the past year for assessing the capital requirements for the Independent Capital Assessment regime as well as contributing to the design of the Club's own reinsurance programme.

UK Club restructure

The Club has recently announced plans to restructure its group of companies in time for the 2013 policy year. The reorganisation will not affect UK Club members' terms of entry, cover, premium or availability of funds to meet claims payments. They will continue to be members of the UK Club Bermuda, but will be insured by UK Club Europe. The Bermuda Club will become the reinsurer of UK Europe and continue to be the holding company, controlled by its members. The Club's reinsurance subsidiary in the Isle of Man, IPIR, will become dormant. By reducing the number of separately regulated insurers from two to one, the Club aims to streamline its governance, reduce compliance costs and more efficiently manage its solvency capital requirements.



"Solvency 2: restructure programme will enable the Club to streamline governance, reduce compliance costs and manage the Club's solvency capital requirements more efficiently."

In conclusion

In these uncertain times for shipping the UK Club is making every effort to ensure that it remains at the forefront of the P&I market.

That commitment is the guiding principle for everything the Club does, whether it is the competitive insurance and services that the Club provides to members worldwide or the strengthening of its capital position, essential for any insurance provider in the modern regulatory environment.

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