

CIRCULAR

9/18 AUGUST 2018

OUTLINE

- The Club has completed the redemption of its \$100 million hybrid bond.

TO THE MEMBERS

THE COST OF HYBRID

As reported in Circular 7/18, at its meeting held on Wednesday 18th July 2018 in Lisbon, the UK (Bermuda) Board decided to redeem the hybrid bond. On 22nd August 2018, the Club completed the redemption of the bond and bondholders should expect to receive funds through their own investment managers over the coming few days.

In July 2008, the UK Club was the first P&I club to raise \$100 million of new capital through the issue of a hybrid bond in preparation for the introduction of the EU Solvency II Directive in 2012. The bond provided an effective way of increasing the Club's regulatory solvency capital and free reserves, and allowed greater flexibility in its investment strategy. This increased flexibility has supported the Club's strategy to build financial strength, and during the period since launching the bond the Club's free reserves have grown very substantially.

In the year to 20th February 2018, the Club's strong financial position was further enhanced through an investment return (excluding currency) of 4% and a combined ratio of just over 90%, with the Club's free reserves increasing by \$82 million to \$540 million. The Board has decided to repay the hybrid capital in view of this strong financial position.

Over the last 10 years the Club has paid interest on the bond of \$82.5 million. However, the actual cost has been considerably lower than this headline rate because:

- a) the Club has been able to invest the additional \$100 million over the last 10 years, earning approximately \$27m to 20th Feb 2018; and
- b) the additional capital provided by the bond allowed the Club to take more investment risk and achieve higher returns. The Club has benefitted by approximately \$31m to 20th Feb 2018 as a result of this opportunity.

Taking these factors into account, the estimated net cost of the bond over the past 10 years has been approximately 2% per annum.

Yours faithfully

THE MANAGERS

For more information

Please contact Nigel De Silva at nigel.desilva@thomasmiller.com or via telephone +44 20 7204 2265