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TO MEMBERS OF THE ASSOCIATION

Dear Member:

RECENT CLUB PERFORMANCE.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
RELEASE CALLS.
PREMIUM REQUIREMENTS FOR THE 2014 POLICY YEAR.

At its recent meeting in New York, your Board reviewed the Club's present and prospective circumstances by reference to several factors. These included the overall economic climate, the outlook for both the investment and freight markets, and the near- and longer-term implications of emerging trends within the P&I environment.

Against this background, your Board also reviewed the development of closed and open policy years and, having considered the Club's position in light of these various perspectives, made several important decisions, including the determination of premium requirements for the 2014 policy year.

The remainder of this Circular describes the issues discussed by your Board, and the decisions it reached in consequence thereof.

Recent Club Performance

During the past twelve months, the "churn effect" (the term commonly applied to the reduction of premium volume as older, higher-rated vessels are replaced by newer, lower-rated ships) has subsided to some extent, even if it has not entirely disappeared.

The significant attenuation of premium revenue experienced in the first six months of 2012 has, fortunately, not been repeated in 2013. Income has been stable during the year to date, while entered tonnage has grown encouragingly over the first nine months, even if at a somewhat lower rate per ton by comparison with historic levels.

However, reflecting the experience of other clubs, retained exposures for the American Club's own account have increased during 2013 by comparison with both 2011 and 2012, claims development at the eight month point for the current year being about $9 million higher than 2012 at the same stage.

As to Pool claims, 2012 continues to develop unfavorably. As of February 20, 2013, there were 20 Pool claims notified to the International Group with an aggregate value of $369 million. This compares with 12 claims totaling $231 million for the 2011 year at the same stage of development a year earlier.

As of October 20, the current year is developing in line with 2012 at the same point of emergence. Since the incidence of large P&I claims, particularly of those which fall within the Pool, is apt to be volatile, it is difficult to say with certainty whether 2013 will prove to be more or less costly for pooling purposes than its two predecessor years. However, present trends are unpromising, particularly given the adverse regulatory and political climate within which such claims nowadays often arise.

However, on the investment front, the American Club continues to enjoy solid results, particularly in a market characterized by historically low yields across many asset classes. As of mid-November 2013, the portfolio had earned a year-to-date return of 5.24%. This has added impetus to the overall financial performance of the Club. Although market uncertainties remain, it is hoped that investment earnings will continue to develop positively over the months ahead.

Development of Closed and Open Policy Years

Closed Policy Years

The development of closed years continues as expected. The excess of assets over liabilities for closed years, which constitutes the Club's contingency fund, stood at $78.3 million as of September 30, 2013, a record figure over $9 million higher than it was twelve months earlier ($69.2 million).

Open Policy Years

2011

2011 currently exhibits a deficit of just under $1.7 million. This compares with an $8.5 million shortfall twelve months earlier, the year having improved by nearly $3.8 million over the first nine months of calendar 2013.

Given that additional investment income will be credited to the year as it further develops over the months ahead, and absent unforeseen eventualities, it is not expected that any call beyond that originally forecast will be required prior to closure, probably in the first half of 2014.

The release call margin for 2011, having originally been reduced from 25% to 15% in November 2012, has been further reduced from 15% to 5%, in line with recent practice for years approaching closure.

2012

As mentioned above, 2012 was affected at an early stage by a strong churn effect, resulting in a marked erosion in premium volume over the first half of the year. Encouragingly, however, claims for the Club's own account remain well within expectations, although Pool claims have emerged at levels significantly higher than those originally contemplated.

This combination of circumstances has generated a deficit on the year which, as of September 30, 2013, stood at just over $16 million.

Compared with the figure of three months earlier, this indicates, however, an improving trend, although the year will continue to be monitored carefully as it progresses toward an intended closure in the first half of 2015. While the Club's robust investment performance can be expected to help the year move closer to equilibrium over time, some subvention from the contingency fund may in due course be required. In the interim, the release call margin for the 2012 year will remain at 20% of estimated total premium as is presently the case.

2013

As mentioned earlier, the 2013 policy year is exhibiting a higher level of retained claims by comparison with both 2011 and 2012 at the same stage of development. Whether this trend will abate remains to be seen. However, attritional claims inflation, as other Group clubs have reported, particularly in respect of higher value exposures, would now appear to be characteristic of the market as a whole.

Although in its early stages of development, and without the benefit of any significant contribution from the Club's investments, the year is currently about $13 million in deficit. However, there are grounds for optimism, as in the case of previous years with early deficits, that this negative trend will improve as the year moves toward closure, probably in the first half of 2016.

In the meantime, the release call margin for 2013 will remain at 20% of estimated total premium as is presently the case.

Release Calls

Following the European Commission's decision during 2012 to conclude its investigations into the International Group of P&I Clubs' claims sharing and reinsurance arrangements, all clubs have agreed to publish, at least annually, a statement of their release call percentages, including factors taken into account in calculating those percentages by reference to the actual assessment of various enterprise and other risks.

As will be seen, the release call margins for open years are as set out above. As will also be clear from the discussion of individual years' results, which represent the context for those margins, considerable thought has been devoted by your Board, in consultation with your Managers, in calibrating them.

Specifically, the following factors were taken into account in setting relevant release call percentages, notably premium risk, catastrophe risk, reserve risk, market risk and counterparty default risk, as well as the exposure of the Club generally to the wide variety of operational risks which, over time, it needs to consider in determining both its basic premium and, more particularly, release call needs in regard to all open policy years.

Premium Requirements for the 2014 Policy Year

In light of all the circumstances reviewed above, your Board has come to the conclusion that, as it noted last year, a general lack of pricing power, combined with mounting external overheads, notably those associated with pooling, will continue to affect the cost of P&I cover over the forthcoming period.

However, there are grounds for optimism that the outlook for shipping will get better over the foreseeable future. In particular, there are reasons to believe that the global economic recovery will gain pace in 2014 and that, while freight markets may lag to some extent, real improvement could start to emerge later in the year, and into the early stages of 2015. Concomitantly, however, attritional exposures will likely maintain an upward trend, the size and volatility of large claims will be unlikely to abate, and the investment climate will remain uncertain.

It is likely, too, that the increasing absorption of risk by individual clubs, and the Group itself, will continue to feature over time, placing a growing need on all clubs to ensure that the cover they provide is properly priced.

Taking all these, and other, considerations into account, the decisions set out below are intended to reflect a measured view of the business landscape which lies ahead, balancing the related perspectives of Members individually and of the Club which serves their collective interests.

Accordingly, your Board has adopted the following policy as to premium rating, and the application of deductibles, for the year commencing February 20, 2014.

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium to be subject to a general increase of 10%.
- Any additional costs of the Club's reinsurance arrangements for 2014 to be charged separately.
- Such premium to be defined as estimated total premium for 2014, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2014.
- Premium (call) to release to be charged as an additional margin of 20% of estimated total premium for the year.

Mutual Freight, Demurrage and Defense (FD&D) Insurance

- All expiring estimated total premium to be subject to a general increase of 10%.
- Any additional costs of the Club's reinsurance arrangements for 2014 to be charged separately.
- Such premium to be defined as estimated total premium for 2014, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium to be debited in two equal installments due March 20 and August 20, 2014.
- Premium (call) to release to be charged as an additional margin of 20% of estimated total premium for the year.

Fixed Premium Protection and Indemnity and Damage to Hull (DTH) Insurance

- All fixed premium P&I and DTH entries (e.g. those for charterers' risks) to be subject to a general increase of 10%.
- Any additional costs of the Club's reinsurance arrangements for 2014 to be charged separately.

Fixed Premium Freight, Demurrage and Defense Insurance

- All fixed premium FD&D entries (e.g. those for charterers' risks) to be subject to a general increase of 10%.
- Any additional costs of the Club's reinsurance arrangements for 2014 to be charged separately.

Following the application of a general increase as set out above, Members' premium rates will be reviewed against the background of their individual loss records, vessel-type factors, as well as other relevant matters, and further adjustments made as appropriate.

In addition, expiring deductibles for all classes of business will be subject to the following changes for the forthcoming policy year, irrespective of other factors as might inform the modification of deductible levels in the case of individual vessels or fleets:

- Claims arising under the provisions of Class I, Rule 2, Section 14.4 will be subject to a minimum deductible of $50,000 any one incident; and

- For vessels over fifteen (15) years of age, claims arising under the provisions of Class I, Rule 2, Section 15 will be subject to a minimum deductible of $100,000 any one incident; and

- all other expiring deductibles of between $10,000 and $25,000 will be increased by 10% in every case; and

- all expiring deductibles of less than $10,000 will be increased by $1,000 in every case, save that there will be a minimum deductible for all claims in respect of crew of $7,500.

It will also be a condition for renewal that:

- All premiums and other sums due to the Club be fully paid up-to-date prior to February 20, 2014 as a condition of continuing cover; and

- All outstanding survey etc. requirements be completed prior to February 20, 2014 as a condition of continuing cover.

Summary

Your Board is aware that price increases are never welcome, particularly at a time when the freight markets continue to struggle. Nevertheless, it remains resolute in its commitment to maintain – and indeed enhance – the financial standing of the American Club over the months and years ahead, particularly in light of the solid progress it has made in recent past.

To recapitulate in brief the specific decisions reached, and described in greater detail above:

- 2011 not expected to attract any further call in excess of original estimate. Intended for closure within the first half of 2014. Release call 5%.

- 2012 developing in deficit, and may require some contingency fund subvention in due course, although final outturn may be expected to improve toward closure anticipated for 2015. Release call to remain at 20% over and above the current estimated total premium for the year.

- 2013 also exhibiting a deficit in early stages of development, but likely to improve toward closure expected in the first half of 2016. Release call to remain at 20% over and above current estimated total premium for the year.

- 2014 renewal to feature a 10% general increase on expiring estimated total premium for mutual P&I entries, plus additional costs of the Club's reinsurance, premium to be characterized as estimated total premium for the year and to be debited in four equal installments. Release call 20% of estimated total premium.

- 2014 renewal to feature a 10% general increase in mutual FD&D entries, plus additional costs of the Club's reinsurance.

- 2014 renewal also to feature a 10% general increase in fixed P&I, Damage to Hull (DTH) and FD&D insurances, plus additional costs of the Club's reinsurance.

- 2014 renewal also to feature increases in, and minimum levels of, certain deductibles, as well as of deductibles for certain P&I risks, as specified above.

Your Managers will be in contact with individual Members with their proposals for renewal over the forthcoming weeks. If, in the meantime, any Members should require clarification in regard to the above, or generally, your Managers will be pleased to respond.

Yours faithfully,

Joseph E.M. Hughes

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Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB