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TO MEMBERS OF THE ASSOCIATION

Dear Member:

INTERNATIONAL GROUP REINSURANCE ARRANGEMENTS FOR 2019

The arrangements for the renewal of the International Group's general excess of loss reinsurance contract (GXL) and Hydra reinsurance program for the forthcoming 2019 policy year have now been finalized.

The continuing support of the market has enabled another successful renewal of the Group GXL and Collective Overspill reinsurance program. The changes to the structure of the program for 2019 – as highlighted below – are intended to deliver enhanced value to shipowners, balancing a cost-effective commercial market placement with a robust and well-funded risk retention strategy aimed at strengthening the financial position of the Group's captive, Hydra.

Renewal overview

The loss experience of the reinsurance program for the 2012 through 2018 (year-to-date) policy years remains acceptable to reinsurers, notwithstanding claims development during the 2018 policy year. This factor, combined with continuing surplus market capacity, the consistently positive financial development of the Group captive, Hydra, and the effective use of multi-year private placements, has enabled the Group to achieve another round of satisfactory reinsurance renewal terms resulting in a further year of reinsurance rate reductions across all vessel categories.

Club retention and GXL attachment point

The individual club retention, which was increased with effect from February 20, 2016 to US$10 million, will remain unchanged for the 2019 policy year. The attachment point on the Group GXL reinsurance program will remain at US$100 million for 2019.

Pool structure

Following the changes introduced in the Pool structure (US$30 million to US$100 million) for 2018, no further changes to the structure will be introduced for the 2019 policy year.

Reinsurance structure changes

Following the Group's reinsurance broker tender process undertaken during the spring of 2018, and the subsequent appointment of Miller and Aon as co-brokers on the GXL and Collective Overspill reinsurance programs, a review was undertaken of the current reinsurance structure, and a number of recommendations were made for changes to it. These were aimed at ensuring sustainability while improving the cost-efficiency of the collective reinsurance arrangements. These changes were reviewed and approved by the Reinsurance Sub-Committee.

The main changes to the program for 2019 concern adjustment of the current program's second and third layer attachment points, the introduction of a new multi-year private placement, and the introduction of a US$100 million annual aggregate deductible (AAD) within the 80% market share in the first layer of the program.

The first layer of the revised program will provide cover from US$100 million to an increased upper limit of US$750 million, the second layer will provide cover from US$750 million to US$1.5 billion, and the third layer from US$1.5 billion to US$2.1 billion. There will be no change to the Collective Overspill layer. This will continue to provide US$1 billion of cover in excess of US$2.1 billion.

One of the three 5% multi-year private placements (US$1 billion excess US$ 100 million) expires on February 20, 2019. This will be replaced by a new multi-year 10% private placement within the new first layer (US$ 650 million excess US$ 100 million), increasing the private placement participation in the first layer from 15% to 20%.

Within the market share (80%) of the first layer, there will be a US$ 100 million AAD which will be retained by the Group's captive, Hydra.

Hydra participation

From February 20, 2019, following the changes to the reinsurance structure outlined above, Hydra will continue to retain 100% of the Pool layer from US$ 30 million to US$ 50 million, and 92.5% of the pool layer from US$ 50 million to US$ 100 million. In addition, Hydra will retain a US$ 100 million AAD in the market share (80%) of new first layer of the GXL program.

MLC cover

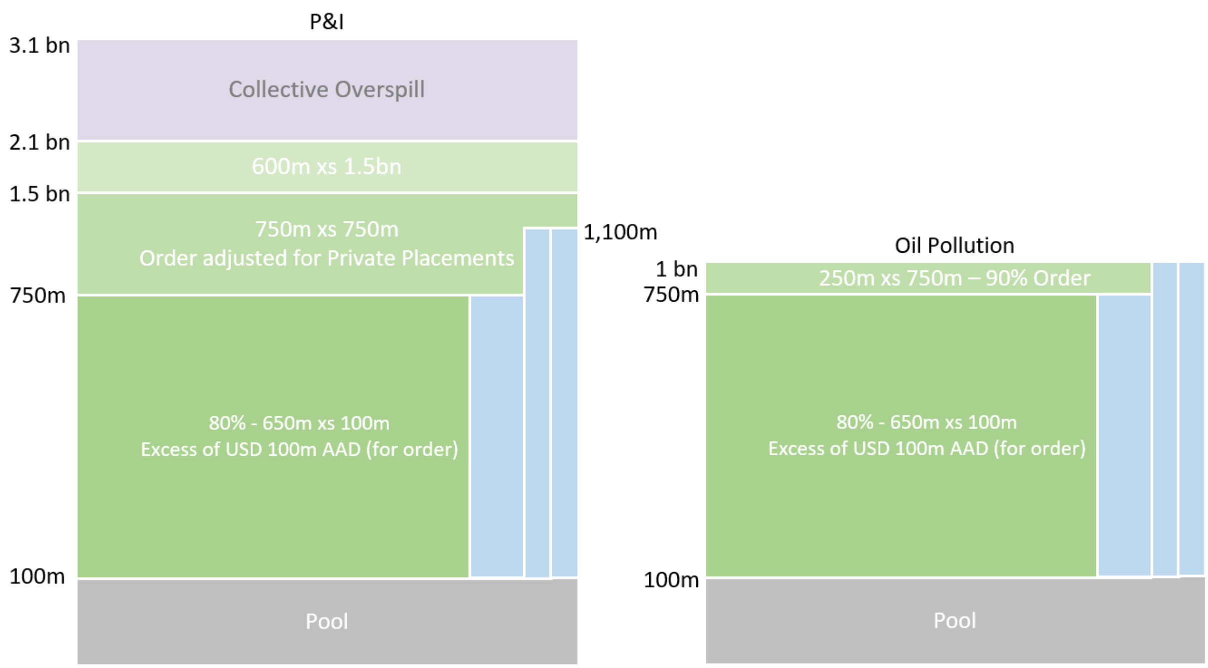
The market reinsurance cover will be renewed for a further 12 months from 20 February 2019 with the expiring cover limit of US$ 200 million (excess of US$ 10 million) at a competitive cost which is included within the overall reinsurance cost.

War cover

The excess War P & I cover will be renewed for 2019 at a reduced premium which will be included in the total rates charged to owners. A separate Circular concerning this element of cover will also be issued soon.

2019 Group GXL program structure

The diagram below illustrates the revised layer and participation structure of the Group GXL program for 2019.



Reinsurance cost allocations for 2019

In accordance with the Group's general reinsurance cost allocation objectives, principally that of moving towards a "claims versus premium" balance for each vessel type over the medium to longer term, the Group's Reinsurance Strategy Working Group and Reinsurance Sub-Committee have again reviewed the updated historical loss versus premium records of the current four vessel-type categories. This detailed review included a focus on claims by vessel-type, and consideration of whether the available claims data merited extending the current vessel-type categories for the purposes of the reinsurance cost allocation exercise.

Tankers

In the tanker category, both the premium for clean tankers and persistent oil tankers (formerly called dirty tankers) and claims records continue to develop favorably, and the tanker tonnage share (as a percentage of total tonnage) remains flat (persistent oil tankers 20% clean tankers 13%).

Dry cargo vessels

In the dry cargo category (excluding passenger vessels), the tonnage share (61% of total tonnage) remains flat and during 2018 the claims and premium record has continued to develop favorably. The Reinsurance Sub-Committee once again reviewed the desirability of, or necessity for, separating container vessels from dry cargo vessels for reinsurance cost rating purposes, and concluded that there remains insufficient historical claims data to support separate treatment for the 2019 policy year.

Passenger vessels

In the passenger vessel category, tonnage share (3% of total tonnage) remains flat and the claims and premium record has continued to develop favorably.

2019 rates

Based on its review of comparative performance by vessel-type category, the Reinsurance Sub-Committee considered that there was no compelling case to prefer any of the sectors over the others and, accordingly, felt that the appropriate approach for the 2019 policy year is an even spread of reinsurance savings across all categories.

The 2019 rates are set out below:

2019 rates summary

Tonnage Category	2019 rate per GT	Change from 2018
PERSISTENT OIL TANKERS	**$0.5747**	**-1.68%**
CLEAN TANKERS	**$0.2582**	**-1.69%**
DRY CARGO VESSELS	**$0.3971**	**-1.67%**
PASSENGER VESSELS	**$3.2161**	**-1.67%**

US oil pollution surcharge

As has been the case for several years, there will be no surcharge for 2019.

This is another positive reinsurance renewal for the International Group and the Members of its constituent clubs. It represents a fifth consecutive year of renewal premium reductions on the Group program. It is hoped this will come as thoroughly welcome news for the global maritime community represented within all Group clubs.

Yours faithfully,

Joseph E.M. Hughes

Joseph E.M. Hughes, Chairman & CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB