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CIRCULAR NO. 25/21

TO MEMBERS OF THE ASSOCIATION

Dear Member:

INTERNATIONAL GROUP REINSURANCE ARRANGEMENTS FOR 2022

The arrangements for the renewal of the International Group's general excess of loss reinsurance contract (GXL) and Hydra reinsurance program for the forthcoming 2022 policy year have now been finalized. This Circular reviews the salient features of the renewal of these important arrangements.

Renewal overview

The main GXL placement (layers 1-3, US\$2bn excess of US\$100m) has now been split into four layers, with the Collective Overspill renewed excess of the GXL, and the three private placements also maintained in place. As such, the entire commercial market placement can be summarised as follows:

- Private placements: 30% of the Layer US\$650m excess of US\$100m has been secured on expiring coverage terms. This percentage is covered by three private market placements which are renewed independently of the main GXL program.
- Main General Excess of Loss: These placements have been renewed with unamended, free and unlimited, coverage *for all risks except*:
 - Malicious Cyber
 - COVID-19
 - Pandemic

For Malicious Cyber, COVID-19 and Pandemic risks there is free and unlimited cover for claims up to US\$450m excess of US\$100m, covering almost all Group clubs' certificated risks. Excess of US\$550m there is up to US\$2.15bn of annual aggregated cover in respect of these three risks. Excess of that, the Group has decided to pool between Group clubs the unreinsured risks, resulting in no change to Members' cover.

- Other placements: The Collective Overspill (US\$1bn excess of US\$2.1bn) and ancillary covers are being renewed with premiums included within the overall rate per GT.

The Group's Bermudan based reinsurance captive Hydra continues to support the Group through its risk retention within the lower layers of the Group's reinsurance structure. The Group's strategy of placing a share of the reinsurance program on a stand-alone basis through the use of private placements has also continued to give shipowners greater stability in a year when market sentiment has been volatile as a result of the impact of the COVID-19 pandemic, increased severity of pool claims and market coverage issues.

The difficult prevailing market conditions and the need to maintain the broadest cover available have led to significant rate rises for 2022. In this regard, while rates for shipowners have increased by an average of 33% year-on-year, the new rates are similar to those rates per gt in 2014/15.

Individual club retention and GXL program attachment

The individual club retention remains unchanged for the 2022/23 policy year at US\$10m, as does the structure of the Pool and the attachment point for the GXL program.

Reinsurance structure 2022

One of the three current Private Placements (together totalling 30% of US\$650m excess US\$100m) was due for renewal for the 2022 policy year. Renewal of this layer was secured early in the process on the basis of no change to coverage, and with the incumbent market. The remaining two private placements each have at least one more year to run.

With regard to the 70% balance of the expiring Layer 1 and the expiring Layers 2 and 3 of the previous structure, a change was negotiated with the reinsurance markets, as follows:

- The expiring Layer 1 (US\$650m excess of US\$100m) has been split into a new Layer 1 (US\$450m excess of US\$100m) and a new Layer 2 (US\$200m excess of US\$550m).
- The US\$100m AAD (retained by the Group's captive Hydra), within the 70% market share of Layer 1 of the program remains in place.
- Excess of the new Layer 2, the layers remain as US\$750m excess of US\$750m (Layer 3), and US\$600m excess of US\$1.5bn (Layer 4). Both these layers are placed 100% in the market.

There was no change to the Collective Overspill layer, which provides US\$1bn of cover excess of US\$2.1bn.

As noted within the overview above, in the two years since the inception of the expiring GXL program, reinsurers have introduced market-wide coverage restrictions in respect of Malicious Cyber, COVID-19 and other new (potential) pandemics. Within the GXL for 2022, the Group has secured a significant level of cover, as follows:

- The new Layer 1 has been put in place with no amendment to coverage for the 2022 year, resulting in free and unlimited reinsurance for all losses including those arising from Malicious Cyber, COVID-19 and Pandemic losses up to US\$550m per vessel.
- Within Layers 2, 3 and 4, free and unlimited cover for all losses, but for those arising from Malicious Cyber, COVID-19 and Pandemics where each layer has an annual aggregate limit in place, totalling US\$2.15bn in annual aggregate cover for these risks across these three layers.
- As set out in the overview, Group clubs have agreed to pool any losses that exceed the annual aggregate limit recoverable from the GXL, resulting in no change to Members' cover.

Hydra participation

Hydra continues to provide cover within the pooled layers of the program and a US\$100m AAD in the 70% market share of Layer 1 of the GXL program

MLC cover

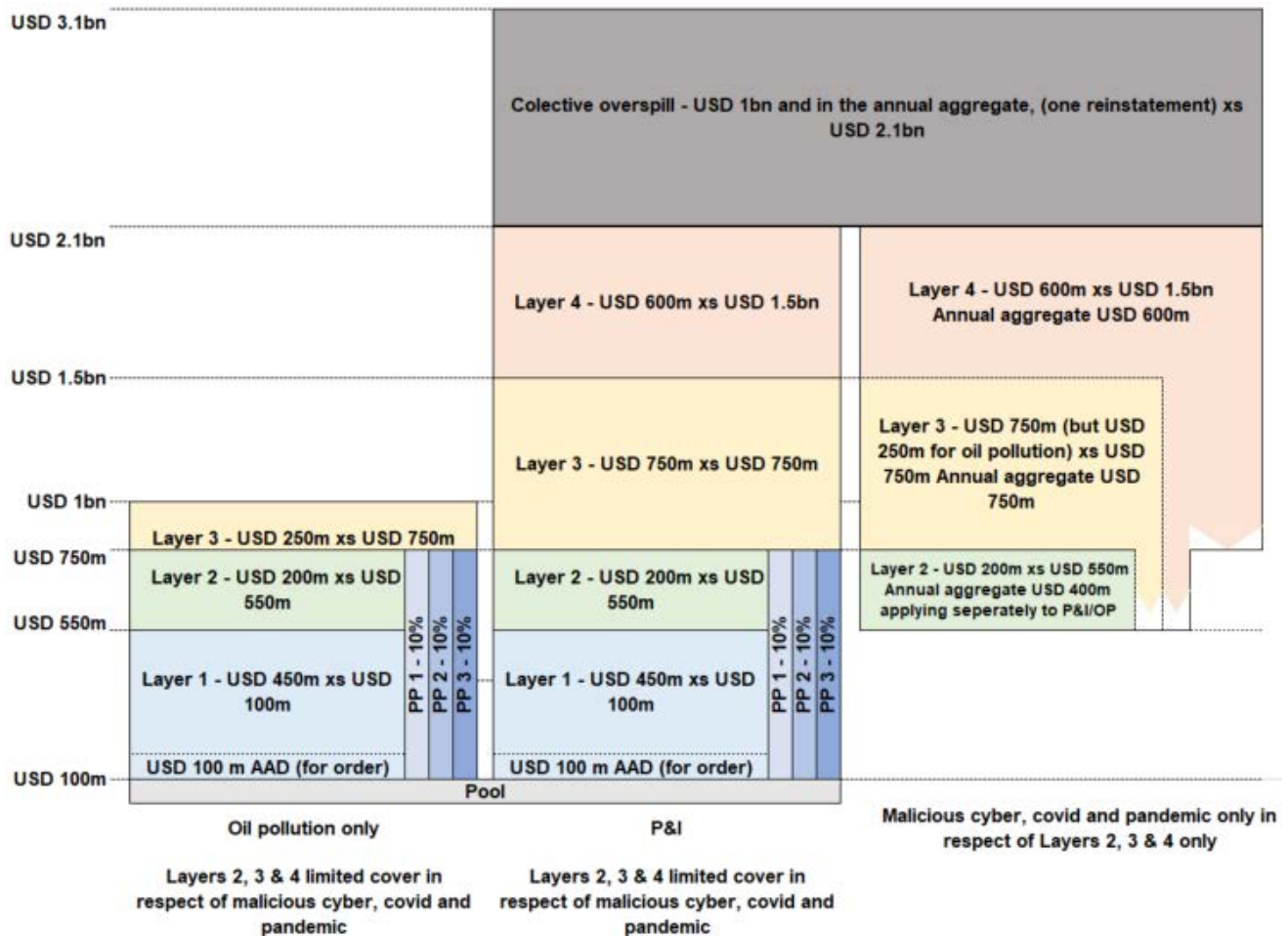
The MLC market reinsurance cover is being renewed for 2022 at competitive market terms, with the premium included in the overall reinsurance rates charged to shipowners.

War cover

The excess War P&I cover will be renewed for 2022 for a period of 12 months. Again, this will be included in the total rates charged to shipowners, and the details of the cover will, as usual, be independently communicated by circular to Members in due course.

2022 GXL program structure

The diagram below illustrates the layer and participation structure of the GXL program for 2022.



Reinsurance cost allocation 2022

As part of its annual analysis and in addition to reviewing premiums, the Reinsurance Committee (RIC) has, as referred to above, been looking at vessel categories.

The conclusions of the RIC are that there should be no change in the number of categories but that there should be some adjustments to the relative rate changes having regard to historical claims performance.



The 2022 individual vessel category rates are as set out below:

Vessel category	2022 rate per GT	% change from 2021
Persistent oil tankers	\$0.6469	+15.0%
Clean tankers	\$0.3666	+40.0%
Dry cargo vessels	\$0.5639	+40.0%
FCC (fully cellular container vessels)	\$0.6586	+55.0%
Passenger vessels	\$3.8677	+18.6%

Overall, this is a satisfactory reinsurance renewal for the International Group and its Members, given the very difficult prevailing market conditions.

If any Member has any questions in regard to the above, or generally, your Managers will be pleased to respond.

Yours faithfully,

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

Yours faithfully,