DECEMBER 13, 2017

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TO MEMBERS OF THE ASSOCIATION

Dear Member:

INTERNATIONAL GROUP REINSURANCE ARRANGEMENTS FOR 2018

The arrangements for the renewal of the International Group's general excess of loss reinsurance contract (GXL) and Hydra reinsurance program for the forthcoming 2018 policy year have now been finalized.

Notwithstanding the uncertainty in the insurance and reinsurance markets following the 2017 windstorm, earthquake and wildfire events, the Group, with the support of its program leader and panel of reinsurers, has once again been able to advance the traditional renewal timetable by approximately one month with the objective of assisting both shipowners and clubs in their negotiations for the 2018 P&I renewals.

Renewal overview

The loss experience of the reinsurance program on the 2012 to 2017 (year-to-date) policy years remains acceptable to reinsurers, notwithstanding some claims development over the year. This, combined with continuing surplus market capacity, the continuing positive financial development of the Group captive, Hydra, and the effective use of multi-year private placements, has enabled the Group to achieve satisfactory reinsurance renewal terms which will result 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 2018 policy year.

The attachment point on the Group GXL reinsurance program will remain at US $100 million for the 2018 policy year.

Pool structure changes

Following a detailed review of the current Pool structure during 2017, a number of recommendations for change were made by the Pool review working group, aimed at simplifying and improving the efficiency of the pooling arrangements. These changes were reviewed and approved by the Reinsurance Sub-Committee.

At present, the lower Pool layer attaches from US $10 million to US $45 million, and the upper Pool layer attaches from US $45 million to US $80 million. With effect from February 20, 2018, the lower Pool layer ceiling/upper Pool attachment point will be raised from US $45 million to US $50 million, and the layer from US $80 million to the GXL attachment (US $100 million) will be absorbed into the Pool and merged with the upper Pool layer which will attach from US $50 million to US $100 million with an individual club retention of 7.5% across the layer.

A diagram showing the revised Pool layer structure for 2018 is set out below.

Hydra participation

Currently, the layer from US $80 million to US $100 million is reinsured 100% by Hydra. From February 20, 2018, following the changes to the Pool structure outlined above, the Hydra reinsurance within this layer will be reduced to 92.5%, with the remaining 7.5% comprising an individual club retention. Hydra also currently reinsures 30% of the first layer of the GXL (US $100 million to US $600 million). This will remain unchanged for 2018.

Private placements

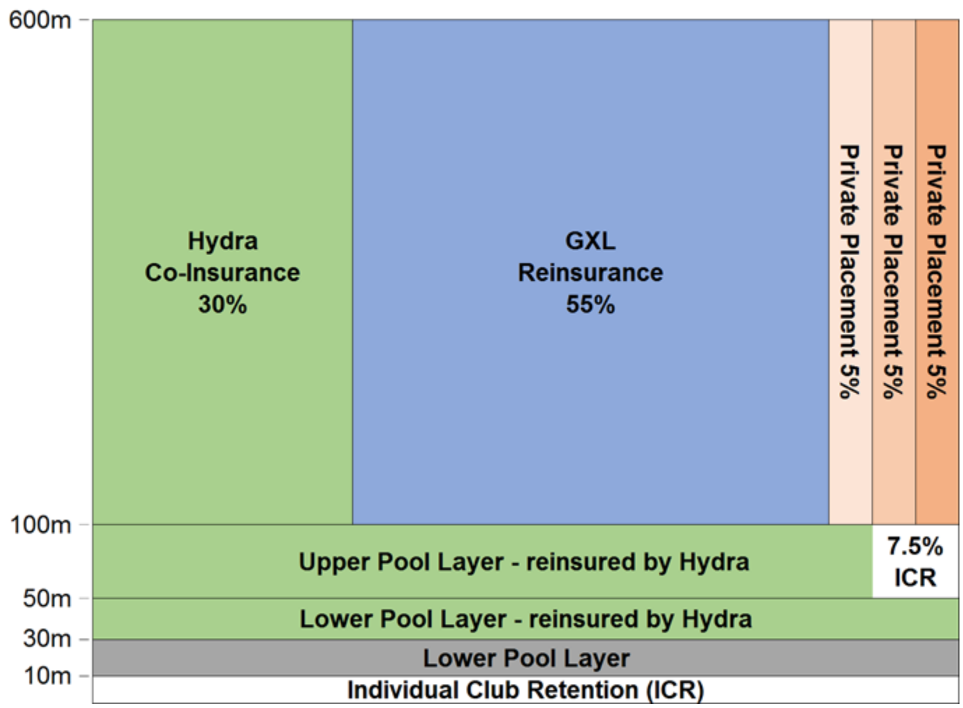
The three multi-year private placements covering the first and second layers of the Group GXL placement (US $1 billion excess of US $100 million) will remain in place for the 2018 policy year.

MLC cover

The market reinsurance cover (US $190 million excess of US $10 million), which was put in place with effect from January 18, 2017 as part of the solution developed by Group clubs to meet shipowners' certification requirements under the financial security provisions of the Maritime Labor Convention, will be renewed for a further 12 months from February 20, 2018 with an increased limit of US $200 million at a competitive cost which will be included within the overall reinsurance cost.

2018 Group Pool and Layer 1 GXL structure

The diagram below illustrates the revised participation structure of the first layer of the Group GXL program for 2018.



Reinsurance cost allocation for 2018

In accordance with the Group's general reinsurance cost allocation objectives, principally that of moving toward 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 clean tanker category, there has been some further development during 2017 which continues to impact the clean tanker record, while the dirty tanker record continues to show improvement.

Dries

In the dry cargo category, during 2017 the claims and premium record has continued to develop favorably. The 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 still remains insufficient historical claims data to support separate treatment for the 2018 policy year.

Passengers

In the passenger category, the claims and premium record has continued to develop favorably.

2018 rates

Based on its review of comparative performance by vessel type category, the Reinsurance Sub-Committee did not consider that there was any compelling case to prefer one sector/s over others, and took the view that the appropriate approach for 2018 would be an even spread across all categories.

The 2018 rates are set out below:

2018 rates summary

Tonnage Category	2018 rate per gt	% change from 2017
DIRTY TANKERS	$0.5845	-1.85
CLEAN TANKERS	$0.2626	-1.83
DRY CARGO VESSELS	$0.4038	-1.85
PASSENGER VESSELS	$3.2707	-1.84

US oil pollution surcharge

As was the case in 2017, there will be no surcharge for 2018.

This is another positive reinsurance renewal for the International Group and the Members of its constituent clubs, particularly when viewed against the challenging background of the significant impact on the global insurance and reinsurance markets of the 2017 natural catastrophe events. It represents a fourth consecutive year of renewal premium reductions on the Group program.

Yours faithfully,

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