AMERICAN STEAMSHIP OWNERS MUTUAL PROTECTION AND INDEMNITY ASSOCIATION, INC.

THE AMERICAN CLUB 1917

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TO MEMBERS OF THE ASSOCIATION

Dear Member:

CLUB PERFORMANCE IN THE CURRENT ECONOMIC CLIMATE.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
LEVYING OF THE FORECAST SUPPLEMENTARY CALL FOR 2009.
PREMIUM REQUIREMENTS FOR THE 2010 POLICY YEAR.

At its meeting yesterday in New York, your Board reviewed the Club's financial performance over recent months in light of the current economic climate. It also reviewed the development of closed and open policy years and, having considered the Club's circumstances by reference to these related perspectives, made decisions in regard to the levying of the forecast supplementary call for 2009, and in regard to premium requirements for the 2010 policy year.

This Circular describes the issues which were discussed by your Board and the decisions it reached.

Club Performance in the Current Economic Climate

Background

Twelve months ago, the challenges confronting the global economy were widely regarded as being almost without precedent in their severity and scope. There was, moreover, a broadly-based consensus that the slump would endure for some time and, by reason of modern market integration, have an extensive global reach.

While some recent indicators suggest that the worst of the recession may now be over, it is generally accepted that the recovery will be patchy and slow, and that global trade will only gradually regain its previous momentum.

Against this background, and to a large degree reinforced by widespread government intervention to preserve the integrity of the banking system and to stimulate economic activity, the financial markets have, despite some volatility, performed surprisingly well over the past several months, particularly in the equities sector.

Concerns remain as to the longer-term consequences of the massive overhang of government debt which recent stimulus initiatives have created, especially within the US economy, and the impact this will have over time on Treasury obligations and other dollar-denominated fixed-income investments.

While dollar weakening and rising interest rates would appear to be likely at some point in the future, inflationary pressures have so far been absent in most of the major economies as continuing consumer pessimism, linked to rising unemployment, has suppressed demand, to say nothing of limited bank lending and an overall lack of pricing power through continuing excess capacity in the manufacturing sector.

Accordingly, recent performance in the fixed-income sector has also held up well with some areas – notably investments in municipal and corporate bonds – having produced respectable returns throughout the recession.

The American Club's recent investment performance

The American Club's portfolio, which continues to hold an allocation of some 70% to fixed income and 30% to equity investments, ended 2008 some 8.5% down on the year. This was better than a benchmark decline of some 11% over the period.

As of the end of October, 2009, the portfolio was up 8.3%, having taken advantage of the stock market rally which began in the spring, and benefiting from a steady performance in the fixed-income sector, particularly as to the Club's investments in municipal bonds. This year-to-date result was broadly in line with a benchmark figure of plus 8.9%.

The American Club has never relied on investment income to subvent underwriting losses. In consequence, it continues to maintain a leading position among its peers by reference to both pure underwriting returns and combined ratio results. Accordingly, a favorable investment performance tends to magnify positive operating trends rather than merely neutralize the effect of underwriting shortfalls.

Given the foregoing, it is pleasing to note that the Club's free reserves have increased substantially since the end of 2008. As of December 31, 2008, the overall figure was $35.7 million, connoting free reserves of about $2.70 per gross ton. Nine months later, as of September 30, 2009, the figure had risen to $55.9 million connoting free reserves of about $4.00 per gross ton, being increases of 57% in the global figure and 48% per gross ton respectively. The absolute growth of overall reserves, and the relative growth of free reserves per ton, are thoroughly creditable by any industry standards.

While the turnaround in investment income described above has been a significant factor in this improvement in surplus funding, moderating claims levels – assisted by a policy of careful risk selection and attentive loss control – have also lent impetus to these encouraging trends.

Outlook

However, in welcoming this improvement in the circumstances of the Club, your Board remains acutely conscious of the arduous conditions which continue to characterize the shipping market. While there are grounds for optimism that the outlook will improve as a global recovery gains traction over time, it is unlikely that world trade will grow in a manner sufficiently robust over the short-term to recalibrate supply and demand so as to achieve an immediate and sustainable upturn in freight rates.

Accordingly, your Board's deliberations have been informed by a sympathetic view of the economic stress to which shipowners are subject at present, balanced by a recognition of the fact that the underlying fundamentals of the marine liability climate remain broadly hostile.

However, all things considered, and especially as a result of its performance over recent months, the American Club has never been better positioned to meet the challenges of the future both in financial terms and by reference to its mission to provide unrivalled levels of Member service, the more so in these difficult times.

Against this background, your Board reviewed the particular issues of the development of closed and open policy years, including the levy of the forecast supplementary call for 2009, and, looking ahead, premium requirements for 2010.

Development of Closed and Open Policy Years

Closed Policy Years

The excess of assets over liabilities in respect of closed years, which constitutes the Club's contingency fund, has grown substantially since the end of 2008.

Having benefited from the transfer of the surplus for 2006 earlier in the year, and embracing as it does the value of unrealized gains on the Club's investment accounts over the period, the contingency fund more than doubled from some $14.6 million to $30.3 million over the nine months to September 30, 2009.

This encouraging performance augurs well for the future stability of the Club's overall funding.

Open Policy Years

2007

The surplus for this year underwent further growth during the quarter to September 30, 2009 and now stands at about $15.3 million.

Notwithstanding high International Group pool exposures for the year, underlying claims levels have proved to be relatively benign, particularly by comparison with earlier years.

Barring unforeseen eventualities, it is expected that the year will be closed without further call during the first half of 2010, much in line with the treatment of the 2006 policy year earlier in 2009.

2008

Although the overall incidence of claims for this year has been lower than that of earlier years (an overall trend affecting each policy year since 2005), and although the severity of attritional claims remains stable by comparison with recent years in general, 2008 saw a disproportionately high number of large claims – ten of more than $1 million by way of incurred exposure and, of this figure, four in excess of $6 million.

However, the surplus for the year has steadily increased in recent months and now stands at $8.7 million. It is expected that the year will be considered for closure at some point in the first half of 2011.

In the meantime, no further calls in excess of current forecasts are expected.

2009

At the start of the year, claims levels for 2009 were progressing in a remarkably subdued manner, the first four months exhibiting aggregate totals significantly better than those seen during any of its five predecessor years.

While it is too early to predict the ultimate claims outturn for the year given its immaturity at this stage, and since there have been some significant individual incidents in more recent months, there remain grounds for cautious optimism that it will remain on pace to mirror the results experienced for 2007.

Accordingly, the current surplus for the year is approximately $1.6 million, inclusive of the earned portion of the forecast 20% supplementary call.

Levying of the Forecast Supplementary Call for 2009

The surplus for 2009 described in the previous section takes into account the earned portion, to September 30, 2009, of the 20% supplementary call originally forecast for the year as part of the overall income and expenditure account budgeted at its inception.

In order to preserve the further, positive development of this policy year in accordance with its original budget and, by extension, maintain the Club's momentum in building greater free reserves, your Board has decided – but not without very careful consideration of the issue, given the currently difficult state of the freight markets – to order the levying of the full 20% supplementary call as originally forecast.

The amounts in question will be invoiced prior to December 31, 2009, but will not fall due for payment until later in 2010.

The total figure of 20% will be payable in two equal installments, one of 10% due on July 20, 2010 and the other of 10% due on October 20, 2010.

Premium Requirements for the 2010 Policy Year

In light of all the circumstances reviewed above, and recognizing the favorable trends described in the opening sections of this Circular, your Board has come to the conclusion that any increase in the total cost of the cover for 2010 should be modest. This has been informed by the recognition of two needs.

The first is the need to ensure that the underlying operational strengths of the Club, and the progress it has made in the recent past, are maintained into the future. This implies the application of a sensible uplift in overall premium for 2010 in order to match the realities of the risk environment over the year ahead.

The second need, given the state of the global economy, and its continuingly negative impact on the freight markets, is to do so in a manner which gives Members the maximum relief in immediate cash flow terms over the forthcoming period.

Having debated a variety of options to respond to these needs, your Board has decided on an approach which will entail a relatively small adjustment to the manner in which the advance and forecast supplementary call components of estimated total premium are charged to Members.

Therefore, for mutual entries, a zero increase in advance call for 2010, linked to a small increase in the value of the supplementary call forecast from the current twenty (20)% of advance calls for 2009 to twenty-five (25)% of advance call for 2010 has been resolved to be the best way forward.

This would mitigate front-end costs in an increasingly difficult market, yet provide an uplift in year-on-year estimated total premium (of about 4%) sufficient to deal with any increase in projected loss, and other, exposures.

Accordingly, your Board has adopted the following detailed policy as to premium rating for the year commencing February 20, 2010.

Mutual Protection and Indemnity Insurance

- All expiring advance call premium to be subject to a general increase of zero (0)%.
- Any additional costs of the Club's reinsurance arrangements for 2010 to be charged separately.
- Such advance call premium to be subject to a supplementary call in due course, estimated at twenty-five (25)% of the advance call.
- All advance call premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2010.
- Premium (call) to release to be 50% of relevant advance calls.

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

- All expiring advance call premium to be subject to a general increase of zero (0)%.
- Any additional costs of the Club's reinsurance arrangements for 2010 to be charged separately.
- Such advance call premium to be subject to a supplementary call in due course, estimated at twenty-five (25)% of the advance call.
- All advance call FD&D premium to be debited in two equal installments due March 20 and September 20, 2010.
- Premium (call) to release to be 50% of relevant advance calls.

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 zero (0)%.

- Any additional costs of the Club's reinsurance arrangements for 2010 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 zero (0)%.

- Any additional costs of the Club's reinsurance arrangements for 2010 to be charged separately.

Following the basic adjustments to expiring premium as described above, Members' premium ratings will be reviewed against the background of their individual loss records, vessel-type factors, as well as other relevant matters, and a further adjustment – either up or down – made as appropriate.

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, 2010 as a condition of continuing cover; and

- All outstanding survey etc. requirements be completed prior to February 20, 2010 as a condition of continuing cover.

Summary

Your Managers offer their apologies for the length of this Circular, but are of the view that the background to the Board decisions communicated herein should be described in detail, particularly since they point to encouraging circumstances for the Club at present.

As mentioned above, price increases, of any kind and however implemented, are never welcome, but your Board remains resolute in its commitment to maintain the financial good standing of the American Club over the months and years ahead, particularly in light of the excellent progress it has made in the recent past.

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

- 2007 progressing satisfactorily and intended for closure within the first half of 2010 without further call. Release call margin 10%.

- 2008 progressing satisfactorily. No further calls expected. Release call margin 25%.

- 2009 progressing satisfactorily. 20% forecast supplementary call to be debited in two equal installments of 10% due for payment on July 20 and October 20, 2010 respectively. Release call margin 25%.

- 2010 renewal to feature a 0% general increase in advance call premium on mutual P&I entries, plus additional costs of the Club's reinsurance, subject to a 25% estimated supplementary call in due course. Release call 50% of advance call premium.

- 2010 renewal to feature a 0% general increase in mutual FD&D entries, plus additional costs of the Club's reinsurance, subject to a 25% estimated supplementary call in due course. Release call 50% of advance call premium.

- 2010 renewal to feature a 0% general increase in fixed premium entries, plus additional costs of the Club's reinsurance. Such entries to include fixed P&I, Damage to Hull (DTH) and FD&D insurances.

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

Yours faithfully,

Joseph E. M. Hughes

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