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CIRCULAR NO. 31/12

TO MEMBERS OF THE ASSOCIATION

Dear Member:

RECENT CLUB PERFORMANCE.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
PREMIUM REQUIREMENTS FOR THE 2013 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 near and longer-term implications of the current economic climate, emerging trends within the P&I environment, and the continuing difficulties affecting the freight markets.

Your Board also reviewed the development of closed and open policy years and, having considered the Club's position in light of these related perspectives, made a number of important decisions, including the determination of premium requirements for the 2013 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

The American Club continues to make steady progress in accomplishing both its near and longer-term goals.

Although premium rates per ton have experienced some attenuation during the past twelve months as older, higher-rated vessels have been replaced by newer, lower-rated ships (commonly referred to as "the churn effect"), tonnage has remained stable, and the Club's retained claims exposure has developed encouragingly.

As to the latter, 2012 is emerging much in line with 2011. Although not as benign as the results for 2010, claims development for the two most recent years has nonetheless conformed to original projections.

Pool claims, however, remain a concern. Aggregate losses for both 2011 and 2012 to date are among the highest ever experienced. The incidence of large P&I claims, particularly of those which fall within the Pool, is apt to be volatile. This makes the modeling of such claims difficult. The frequency and individual severity of large claims generally, and those entering the Pool in particular, may ultimately abate, despite the adverse regulatory and political climate within which such claims often arise, but present trends are unpromising in this regard.

On the investment front, the American Club has enjoyed good results during 2012. As of mid-November, the portfolio has earned a year-to-date return of 6.1%. This has added strength to the overall performance of the Club. It is hoped that investment earnings will continue to develop positively over the months ahead.

Given these trends, the American Club has been able to grow both its GAAP and statutory surpluses during the year. The Club's statutory surplus grew by approximately $4.7 million during the nine months to September 30, 2012 (to $69.7 million), while its GAAP surplus grew by just under $1 million (to $61.2 million) during the same period. Given a challenging business climate, this is a respectable result, auguring well for the future.

In counterpoint to these positive developments, the continuing crisis in the freight markets has also animated your Board's consideration of premium policy for 2013. It has been conscious of the need to limit any increase to a level which acknowledges the difficulties currently confronting Members, yet recognizes that claims and other costs are likely to increase, rather than diminish, in the future.

In reaching their decision in regard to premium rating for 2013, however, your Board first conducted a review of the development of closed and open policy years, as below.

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 approximately $60 million as of September 30, 2012, some 10% higher than it was twelve months earlier ($54 .5 million).

Open Policy Years

2010

As of September 30, 2012, this year exhibits a surplus of $14.1 million, a year-to-date improvement of $3.1 million. Absent unforeseen eventualities, it is expected that the year will be closed without further call during the first half of 2013.

The release call margin for 2010 has been reduced from 25% to 5%.

2011

This year continues to develop in deficit, the September 30, 2012 figure being a negative $8.5 million, taking into account, *inter alia*, a conservative allowance for pooling costs. Nevertheless, given that further investment income will be credited to the year as it develops toward closure, and absent unforeseen eventualities, it is not expected that any further call beyond that originally forecast for the year will be required prior to closure, probably in the first half of 2014.

The release call margin for 2011 has been reduced from 25% to 15%.

2012

As mentioned earlier, premium and retained claims trends for the current policy year appear to be tracking those for 2011 at a similar stage of development. As of September 30, 2012, the year was exhibiting a deficit of $4.4 million, without significant support from the Club's investment portfolio.

Again, part of the deficit relates to a conservative allowance for pooling costs for the year as it develops towards maturity. However, as in the case of 2011, and again absent unforeseen eventualities, it is not currently expected that any further call beyond that originally forecast for the year will be required prior to closure.

The release call margin for 2012 year will remain at 20% of estimated total premium as is presently the case.

Premium Requirements for the 2013 Policy Year

In light of all the circumstances reviewed above, your Board has come to the conclusion that, while the results for 2011 and 2012 continue broadly to exhibit the more benign trends which featured so strongly in 2010, they have nonetheless been affected by a continuing lack of pricing power and mounting external costs, notably that of pooling. Other indicators also suggest that some allowance must be made for rising exposures over the year ahead, particularly those generated by simple claims inflation.

In addition, while the American Club has enjoyed solid investment returns in the recent past, the volatility of the capital markets remains a concern, and the use of investment income to subvent underwriting deficits should not be taken as a reliable expedient for the future.

As mentioned above, the deliberations of your Board have also been informed by the challenging financial environment in which Members are situated. In consequence, the decisions set out below are intended to reflect a balanced view of the business landscape which lies ahead, taking into account 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 etc. rating for the year commencing February 20, 2013.

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 2013 to be charged separately.
- As in the case of the current policy year, such premium to be defined as estimated total premium for 2013.
- All estimated total premium to be debited in four equal installments due March 20, June 20, September 20 and December 20, 2013.
- 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 2013 to be charged separately.
- As in the case of the current policy year, such premium to be defined as estimated total premium for 2013.

- All estimated total premium to be debited in two equal installments due March 20 and August 20, 2013.

- 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 2013 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 2013 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 and other factors, including in particular the exposure which a Member's risk profile brings to the Club going forward, and further adjustments will be 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, 2013 as a condition of continuing cover; and

- All outstanding survey etc. requirements be completed prior to February 20, 2013 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 are in such a parlous condition. Nevertheless, your Board remains resolute in its commitment to maintain – and indeed enhance – the financial standing of the American Club over the years ahead, particularly in light of the excellent progress it has made in recent past.

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

- 2010 not expected to attract any further call and intended for closure within the first half of 2013. Release call 5%.

- 2011 progressing in accordance with expectations and not expected to attract further call. Release call 15%.

- 2012 also progressing in line with expectations. No further call expected. Release call to remain at 20% over and above the current estimated total premium for the year.

- 2013 renewal to feature a 10% general increase 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.

- 2013 renewal to feature a 10% general increase for mutual FD&D 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 two equal installments. Release call 20% of estimated total premium.

- 2013 renewal to feature a 10% 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.

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

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