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NOVEMBER 18, 2011

CIRCULAR NO. 33/11

TO MEMBERS OF THE ASSOCIATION

Dear Member:

RECENT CLUB PERFORMANCE.
DEVELOPMENT OF CLOSED AND OPEN POLICY YEARS.
LEVYING OF THE FORECAST SUPPLEMENTARY CALL FOR 2011.
PREMIUM REQUIREMENTS FOR THE 2012 POLICY YEAR.

At its meeting yesterday in New York, your Board reviewed the Club's present and prospective circumstances across a broad range of criteria. These included the Club's recent operational performance, the current state of the freight markets, the nature of the present investment climate and the implications for its business of the global economy in general.

Your Board also reviewed the development of closed and open policy years and, having considered the Club's position in light of these several perspectives, made decisions in regard to the levying of the forecast supplementary call for 2011, and in regard to premium requirements for the 2012 policy year.

The remainder of this Circular describes the issues discussed by your Board, and the decisions it reached as a consequence of those discussions.

Recent Club Performance

Background

Twelve months ago, the circular which reviewed Club performance at that stage referred to an economic climate of "unusual uncertainty" as then recently described by the chairman of the US Federal Reserve.

Many of the negative factors which prompted Mr. Bernanke's comments have further deteriorated in the interim, the Eurozone debt crisis being probably the greatest threat to the financial system at present. While the major developing nations continue to move the global economy forward, albeit at a diminished pace, the overall outlook continues to be uncertain, the more so if Eurozone contagion were to cause a further systemic breakdown.

Against this unpromising backdrop, the freight markets continue to languish. The current imbalance between supply and demand appears unlikely to experience a positive readjustment any time soon. Accordingly, shipping industry earnings are unlikely to rise significantly over the short-term. However, depending on the extent to which the global economy avoids a further downturn and continues to expand, however modestly, over the next two years, there is hope that prospects will improve for 2013 and beyond.

The recent experience of the American Club

The underwriting, claims and investment experience of the American Club over the last nine months broadly reflects the trends outlined above.

On the underwriting front, there has been modest – and deliberately prudent – growth in tonnage since last February's renewal in all classes of business. As at the middle of November, Class I (P&I) tonnage has grown by about 6% since the beginning of the policy year. Tonnage entered for coverage under Class II (FD&D) and Class III (Charterers' insurance) had also increased over that period.

As to the pricing of risk, the widely referred to "churn" – where newer, lower-rated vessels enter the Club to replace older, higher-rated ships – has had some effect in reducing overall premium per ton, but its impact to date has been relatively subdued. Moreover, the risk profile of newer tonnage is typically better than that of the older vessels which it replaces, implying superior claims performance for such tonnage over time.

Indeed, so far as the Club's claims performance is concerned, the favorable trends emerging in regard to 2010 twelve months ago appear to have continued in the development of the current policy year. Although not as exceptionally benign as was the case in 2010, the Club's retained claims for 2011 to date are nonetheless better than those of any other year at the same stage of development (with the exception of 2010 itself) since 2002. Pool claims for 2011 also appear to be tracking the performance of the previous two years. However, although these trends are encouraging, the current year is still immature and much could change as the year develops further. Nevertheless, current indications justify a cautiously optimistic view for the future.

As to the Club's investment performance, there is little need to add further comment on the remarkable – and often contrarian – volatility which has afflicted the markets in recent months, notably in the equities sector. However, against a background of steadily de-risking the Club's portfolio since the early summer, funds under investment have produced a return of 3.1% since the beginning of the year.

Outlook

The Club's positive experience over the last several months is to be welcomed. Indeed, it has been reflected in the ratings upgrade very recently granted by Standard & Poor's and notified to Members in Club Circular No. 32/11 of November 17, 2011. However, uncertainty continues to affect the Club's prospects as well as those of its Members individually.

In particular, and as noted a year ago, higher claims volumes may well begin to reassert themselves over the medium- to longer-term. There are several potential drivers of such claims inflation, notably a growing systemic risk implied by the continuing expansion of the world merchant fleet coupled with increasing ship utilization and rising commodity prices.

In addition, the volatility and contrarian trends which persist within the financial markets suggest continuingly uncertain prospects for investment earnings. Accordingly, the need to ensure the appropriate pricing of risk as a basis for self-sustaining results at the operating level will continue to assume great importance over the years ahead.

Finally, and as was also noted a year ago, the unrelenting hostility of the political, regulatory and judicial environments will continue to assert a baleful influence on future P&I exposures. These adverse circumstances will be compounded by the creeping extension of levels of shipowner liability under existing conventions, and those likely to come into effect in the future.

Having considered these many issues, and balancing the favorable performance of the recent past against future headwinds, your Board went on to review the development of closed and open years, including the levy of the forecast supplementary call for 2011, and, looking ahead, premium requirements for 2012.

These issues are discussed in the remaining sections of this Circular.

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, declined very slightly (by some $600,000) during the nine months from year-end 2010 to September 30, 2011.

This was due for the most part to investment losses sustained during the worst of the late summer sell-off in equities which had a negative effect on the Clubs unrealized investment holdings. The position has since largely corrected itself, assisted by the steady de-risking of the Club's portfolio as noted above. Accordingly, the fund value at September 30, 2011 of $54.5 million is greater than it was twelve months earlier ($53.3 million).

Open Policy Years

<u>2009</u>

As of September 30, 2011 the year is exhibiting a deficit of approximately $6.4 million, a year-to-date improvement, however, of some $1.2 million.

Barring unforeseen eventualities, and notwithstanding the current deficit position of the year, it is expected that it will be closed without further call during the first half of 2012, much in line with the treatment of the 2007 and 2008 policy years in 2010, and earlier this year, respectively.

In light of this, the release call margin for 2009 has been reduced to 10%.

<u>2010</u>

This year continues to develop in surplus, the September 30, 2011 figure being a positive $8.5 million, a year-to-date increase of about $3.8 million.

It is expected that the year will ultimately be closed in the first half of 2013 without further call. In the meantime, the release call margin for the year remains at 25%.

<u>2011</u>

As mentioned earlier, premium and claims trends for the current policy year appear to be tracking those for 2010 at a similar stage of development. As of September 30, 2011, the year was exhibiting a small deficit of $2.6 million, inclusive of the earned portion of the forecast 25% supplementary call for the year.

Levying of the Forecast Supplementary Call for 2011

In order to preserve the positive development of the 2011 policy year in accordance with its original budget and, by extension, maintain the Club's progress in building free reserves, your Board has decided formally to order the levying of the full 25% supplementary call as originally forecast for both mutual P&I (Class I) and F.D.&D. (Class II) entries.

The amounts in question will be invoiced prior to December 31, 2011, but will not fall due for payment until later in 2012. The total figure of 25% will thus be payable in two equal installments, one of 12.5% due on July 20, 2012 and the other of 12.5% due on October 20, 2012.

The release call margin for the year will remain at 25% over and above the supplementary call to be debited as above.

Premium Requirements for the 2012 Policy Year

In light of all the circumstances reviewed above, and considering the outlook for the future, your Board has come to the conclusion that, while the results for both 2010 and the current year point in a positive direction, longer-term trends suggest that some allowance must be made for rising costs over the year ahead.

This view has also been informed by a recognition that the Club's current operational strength must be maintained into the future. In addition to acknowledging potential inflationary pressure over time, this need implies the application of a reasonable uplift in overall premium for 2012 in order to achieve the sensible pricing of risk against likely exposure. In coming to its conclusions, your Board was, however, also mindful of the continuingly difficult business environment which Members are likely to encounter over the next twelve months.

Accordingly, your Board has adopted the following detailed policy as to premium rating for the year commencing February 20, 2012.

Mutual Protection and Indemnity (P&I) Insurance

- All expiring estimated total premium to be subject to a general increase of 5%.
- Any additional costs of the Club's reinsurance arrangements for 2012 to be charged separately.
- Such premium to be defined as estimated total premium for 2012, subject to a zero (0) supplementary call forecast for the year.
- All estimated total premium to be debited in five equal installments due March 20, June 20, September 20 and December 20, 2012, with the fifth installment to be deferred for payment on May 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 5%.

- Any additional costs of the Club's reinsurance arrangements for 2012 to be charged separately.

- Such premium to be defined as estimated total premium for 2012, subject to a zero (0) supplementary call forecast for the year.

- All estimated total premium to be debited in two equal installments due March 20 and August 20, 2012.

- 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 5%.

- Any additional costs of the Club's reinsurance arrangements for 2012 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 5%.

- Any additional costs of the Club's reinsurance arrangements for 2012 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, vessel-type factors, as well as other relevant matters, and further adjustments 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, 2012 as a condition of continuing cover; and

- All outstanding survey etc. requirements be completed prior to February 20, 2012 as a condition of continuing cover.

Summary

Your Managers offer their apologies for the length of this Circular but, as in previous years, believe that the background to the decisions communicated herein should be described in detail, particularly since they suggest encouraging circumstances for the Club as the future unfolds.

As your Board has consistently acknowledged, price increases of any kind are never welcome, but it remains resolute in its commitment to enhance the financial 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:

- 2009 not expected to attract any further call and intended for closure within the first half of 2012. Release call 10%.

- 2010 progressing well and, barring unforeseen eventualities, likely to be closed within the first half of 2013 without further call. Release call 25%.

- 2011 progressing satisfactorily. 25% forecast supplementary call, for both mutual P&I and FD&D entries, to be debited in two equal installments of 12.5% due for payment on July 20 and October 20, 2012 respectively. Release call margin 25% over and above the supplementary call to be debited as described.

- 2012 renewal to feature a 5% general increase on expiring estimated total premium for mutual P&I entries, plus additional costs, if any, of the Club's reinsurance, premium to be characterized as estimated total premium for the year, with a zero supplementary call estimate, to be debited in five equal installments, one of which is to be deferred for payment in May, 2013. Release call 20% of estimated total premium.

- 2012 renewal to feature a 5% general increase in mutual FD&D 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 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, Chairman & CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB