

OCTOBER 10, 2001

CIRCULAR NO. 11/01

TO MEMBERS OF THE ASSOCIATION

Dear Member:

**DEVELOPMENT OF OPEN POLICY YEARS SUPPLEMENTARY AND
RELEASE CALL REQUIREMENTS FOR THE 1999, 2000 AND OTHER POLICY YEARS**

At its recent meeting in New York, your Board of Directors reviewed the development of policy years following the reassessment of claims reserves and investment returns foreshadowed in Circular No. 8/01 of July 6, 2001. The remainder of this Circular – which Members are encouraged to read in conjunction with its predecessor mentioned above – describes your Board's decisions in regard to the status of open policy years and, specifically, the need for additional Supplementary Calls for 1999 and 2000.

1998 Policy Year

Much as expected, the recent review of outstanding liabilities in regard to this year indicates that it will indeed prove capable of closure within the original estimate. It is currently intended that the year be formally closed in March 2002, at which time the anticipated surplus will be credited to the Club's contingency account. In the interim, the Release Call margin for the year remains at 25% of the Advance Call over and above the forecast Supplementary Call already levied.

1999 Policy Year

Although the claims review undertaken in regard to this insurance period showed that the ultimate outturn for the year was likely to be better than that which appeared to be developing some six months ago, your Board, nevertheless, considered it prudent to make some adjustment to the currently forecast Supplementary Call requirement.

Accordingly, it was decided that a further 20% of Advance Call be levied in regard to 1999 and that the Release Call margin for the year be maintained at 25% of the Advance Call over and above this figure.

Payment of this additional call will be due in one installment on February 20, 2002.

2000 Policy Year

A discussion of the overall circumstances of this year was contained in the Club's July Circular mentioned above. In the meantime, other International Group Clubs have echoed those observations in their own annual reports and related notices. In light of this – and the extensive coverage the subject has received in the trade press – it is unnecessary here to rehearse once again the difficult market conditions which prevailed during this insurance period.

In making its assessment of an appropriate level for an additional Supplementary Call for 2000, your Board was mindful of the need to achieve a realistic contribution from Members to the likely deficit for the year, while at the same time recognizing that the Club's robust contingency fund was explicitly available to provide subsidy to any untypically negative operating results.

In addition to these issues, your Board gave close consideration to the need to respond quickly and decisively to the temporary impairment of the Club's statutory and GAAP surpluses to which the increased claims on the 2000 policy year had contributed. Given the momentous changes which were underway within the global industry even before the terrible events of September 11, there were clear signs that significant rate hardening could be expected across the market as a whole at the next and subsequent renewals. However, your Board was clearly of the view that the exceptionally sharp 'spike' represented by the 2000 year in comparison with the results of

neighboring policy periods needed to be addressed directly and specifically in a manner consistent with the best principles of mutuality. In short, the expectations of higher premium rating in the future coupled with the hope of better claims experience and investments results, should not deflect the Club from taking a responsible approach to the 2000 year however tempting it might be to put off addressing a problem affecting the P&I industry as a whole.

Accordingly, your Board voted to order an additional Supplementary Call of 50% of Advance Call for the 2000 policy year, payable in two installments of 25% each on August 20 and November 20, 2002. The Release Call margin for 2000 will be maintained at 25% of Advance Call over and above the new additional Supplementary Call figure.

2001 Policy Year

This year continues to develop in line with original expectations as discussed in the Club's July Circular. It is therefore expected that your Board will order the levy of 25% Supplementary Call for the year, as forecast, at its next meeting in November for payment on May 20, 2002 in accordance with the established practice of recent years.

The Release Call margin for the 2001 policy year remains at 25% of the Advance Call over and above the forecast Supplementary.

Recapitulation

In light of the foregoing, Members should budget as follows for payment of the following Supplementary Calls during 2002:

February 20, 2002: 20% of 1999 Advance Call.

May 20, 2002: 25% of 2001 Advance Call (to be confirmed at November Board meeting).

August 20, 2002: 25% of 2000 Advance Call.

November 20, 2002: 25% of 2000 Advance Call.

The Release Call margins for the 1998, 1999, 2000 and 2001 policy years remain at 25% of each policy year's respective Advance Call values over and above the current Supplementary Call requirements as specified above.

Freight, Demurrage & Defense Cover

Those Members who are entered for Freight, Demurrage and Defense risks should note the originally forecast Supplementary Calls in regard to this sector of Club coverage remain unchanged i.e. they are unaffected by the above-mentioned additional Supplementary Call requirements which apply to P&I premiums only. However, the Release Call margins for Freight, Demurrage and Defense cover remain, as before, at 25% of Advance Call over and above the currently forecast Supplementary Call levels for each open policy year, as in the case of P&I entries.

It is hoped that the foregoing provides a clear and comprehensive overview of your Board's recent decisions in regard to the funding of open policy years. However, if any Member has any specific questions the Managers will, as always, be pleased to respond.

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