International Group reinsurance renewal update January 2015

The arrangements for the renewal of the International Group General Excess of Loss reinsurance contract and the Hydra reinsurance programmes for 2015/16 have now been finalized.

The individual club retention will remain at US $9 million and the excess point on the GXL contract will remain unchanged at US $80 million 2015/16 policy year.

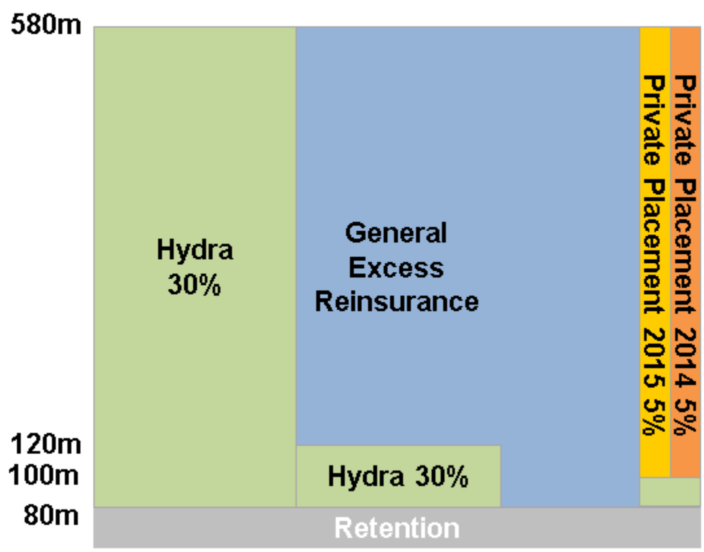
Further development during 2014 on the 2011/12 policy year, which produced the first and third largest ever claims on the Group pool, has continued to impact on the Group's reinsurers, in particular on those participating on the second and third layers of the programme. The development in incurred losses since the 2014 renewal, which are very substantially accounted for by the Costa Concordia and Rena claims, amounts to approximately US $400 million. The loss experience of the reinsurance programme on the 2012/13, 2013/14 and 2014/15 (year to date) however remains very favourable to reinsurers. This, combined with increased market capacity, the continuing positive financial development of the Group captive, Hydra, facilitating additional Hydra risk retention, and the use of a further multi-year fixed placement has enabled the Group to achieve favourable reinsurance renewal terms, resulting in rate reductions for tankers and dry cargo vessels, and no increase for passenger vessels.

Hydra reinsurance of the Group pool will remain unchanged at US $50m xs US$30m. Hydra will increase its 2014/15 30% co-reinsurance share in the first layer of the Group general excess loss programme (US $500 million xs US $80 million) to include an additional 30% share of the layer US $80 million-US $120 million (so effectively Hydra will be re-insuring 60% of the layer US $80 million-US $120 million), and a 10% share of the layer US $80 million-US $100 million.

In addition to the 5% 36 month private placement of US $1 billion xs US $100 million which incepted on the 2014/15 renewal, a further 5% 36 month private placement of US $1 billion xs US $100 million which will incept on 20 February 2015.

The diagram below illustrates the revised participation structure of the first layer of the Group general excess loss programme for 2015/16.

IG GXL Layer 1 structure 2015/16



For 2015/16, there will once again be a three layer pool structure with a lower pool layer from US$ 9 million to US$45 million, an upper pool layer from US$45 million to US$ 60 million (within which, as currently, there is a claiming club retention of 10%) and a top pool layer from US $60 million to US $80 million (within which there is a claiming club retention of 5%).

The result of the renewal negotiations and programme restructuring is a reduction in reinsurance cost of 8.11% for clean and dirty tankers, 6.05 % for dry cargo vessels, and no increase for passenger vessels or chartered entries.

In approaching the reinsurance cost allocation exercise for the 2015/16 policy year, and in accordance with the Group's general allocation objective, principally that of moving towards a claims versus premium balance for each vessel type over the medium to longer term, the Group's Reinsurance Strategy working group and Reinsurance subcommittee have again reviewed the updated historical loss versus premium records of the current four vessel type categories.

In the tanker category, both the clean and dirty tanker records show a continuing favourable trend of steadily reducing claims and premium since 2004/5.

In the dry cargo category, claims and premium have continued to return towards equilibrium. In comparing container and non-container dry tonnage, the objective stated above of seeking to achieve equilibrium over the medium to longer term dictates that a new vessel type category should not be created in the short term, absent a compelling reason to do so based on a sustained claims pattern. The absence of any significant container claims arising during the 2014/15 policy year to date means that there remains insufficient historical claims data to support separate treatment of container vessels from dry cargo vessels in general, for reinsurance cost rating purposes for the 2015/16 policy year.

In the passenger category, there were significant increases in reinsurance costs allocated in the 2013/14 and 2014/15 policy years, principally reflecting the very substantial continuing adverse development on claims arising from the Costa Concordia incident. These claims should now be fully, or very close to fully, developed and, in the absence of any further major passenger vessel incidents, the sector should continue to move towards claims/premium equilibria over the medium term.

2015/16 rates summary

Tonnage Category	2015 rate per gt	% change from 2014
DIRTY TANKERS	$0.7317	% - 8.11
CLEAN TANKERS	$0.3138	% - 8.11
DRY CARGO VESSELS	$0.4888	% - 6.05
PASSENGER VESSELS	$3.7791	% 0.00
CHART TANKERS	$0.2522	% 0.00
CHART DRIES	$0.1228	% 0.00

Hugo Wynn-Williams

Chairman, International Group Reinsurance subcommittee

14 January 2015