

CIRCULAR

To the Members

Report on the 615th Meeting of the Board of Directors

The 615th Meeting of the Association's Board of Directors was held in Tokyo on 28 November 2022, to decide on the 2023 renewal, to review open policy years, to adopt proposed alterations to the Rules of the Association, and to decide the implementation of a capital increase of Hydra Insurance Company Ltd. The decisions made at the Meeting are set out in "Main Decisions", below.

Introduction

Thanks to the continued support of the Members of the Association, as at 31 October 2022, the total number of vessels entered with the Association (owners' entries and Naiko/coastal class entries) has been maintained at 3,863, across 93.8 million gross tons in the aggregate.

The Association has steadily improved its capital by increasing the reserve from year to year since the International Group first introduced new criteria for its membership in terms of S&P credit ratings. However, the Association's rating has been downgraded to "BBB: outlook: stable" due to a significant decrease in the reserve resulting from an underwriting deficit last fiscal year. As the International Group's threshold for its membership is "BBB- outlook : stable" and higher, there is no imminent concern about the soundness required of the Association's operations. Nevertheless, the Association should stabilise and strengthen the financial ground urgently to avoid further downgrading.

Turning to the claims received by the Association in the 2022 policy year to date, just one pool claim has occurred. This is in line with the trend of International Group Pool claims in the 2022 policy year, which has been much quieter, compared to 2020 and 2021 policy years. However, as the claims amount of owner's entries incurred in past years, especially 2020 and 2021, have increased, the loss record has become worse; 2020 policy year has deteriorated to 122.0% and 2021 policy to 190.3%. For Naiko class, though no large claim has occurred so far this policy year, reinsurance premium has significantly increased because of a claim last year which became the Association's largest-ever loss. This makes the income and expenditure situation very severe.

In this situation, the Association has decided to aim to maintain the reserve of JPY 25 billion by developing the financial stability plan for 2022. The plan sets goals to recover the reserve that had decreased last year and to maintain and even upgrade the S&P rating. Considering the financial stability plan as described above, the Board has decided the premium ratings for the 2023 policy year and the supplementary and release calls for past policy years as follows. Thank you for your understanding and support.

Main Decisions

1. Calls and premiums

(1) Owners' entries

Policy Year	Original Supplementary Call Estimate	Paid Supplementary Call	Board's Decision	Release Call
2019	40%	40%	Closed	Closed
2020	40%	40%	The Managerial Committee is authorised to decide to levy an unbudgeted supplementary call up to 25% (the decision will be made in February 2023).	30%
2021	40%	0%	The originally-estimated supplementary call of 40% due for payment by 31 January 2023. Further, the Managerial Committee is authorised to decide to levy an unbudgeted supplementary call up to 25% (the decision will be made in February 2023).	30%(*)
2022	40%	-	The position remains unchanged.	45%
2023	-	-	A 10% general increase to be applied to mutual premium rates.	3.5%

(*) This release call means after the originally-estimated supplementary call of 40% has been paid.

The details of the above decisions are as follows:

2023 Policy Year

Mutual Premium

There will be a 10% general increase in mutual premium rates for Owners' entries. In addition, Members' rates will be adjusted as appropriate to reflect their individual claims record, as well as any changes in the cost of the International Group's reinsurance programme.

Release Call

The release call for this year is set at 3.5% (**).

Open Policy Years

2019 Policy Year

The originally-estimated supplementary call of 40% was made in January 2021. This year is hereby closed without a further supplementary call.

2020 Policy Year

The originally-estimated supplementary call of 40% was made in January 2022. However, the expected ultimate loss

for this year has deteriorated as the year develops. To address this, the Board has authorised the Managerial Committee to decide to levy an unbudgeted supplementary call up to 25% (the decision will be made in February 2023). No further supplementary call is expected and the release call rate is set at 30%, with the year remaining open.

2021 Policy Year

The claims development for this year is significantly less favourable than expected. The Board has decided that the originally-estimated supplementary call of 40% will be made now (Members will be invoiced for payment of this by 31 January 2022). Moreover, the Board has authorised the Managerial Committee to decide to levy an unbudgeted supplementary call up to 25% (the decision will be made in February 2023). No further supplementary call is expected and the release call rate is set at 30% (This release call of 30% means after the originally-estimated supplementary call of 40% has been paid. If the 40% supplementary call has not been paid, the release call rate shall be read as 70%).

2022 Policy Year

The original supplementary call estimate was 40% and the release call was 45%. The position for this year remains unchanged.

(2) Charterers' entries

2023 Policy Year

There will be a 10% general increase in premiums for charterers' entries. In addition, Members' rates will be adjusted as appropriate to reflect their individual claims record.

(3) FD&D cover

2023 Policy Year

There will be a 10% general increase in mutual premium rates for FD&D cover. In addition, Members' rates will be adjusted as appropriate to reflect their individual claims record.

The release call for this year is set at 3.5% (**).

Open Policy Years

2019 Policy Year

The original supplementary call estimate was 20%. This year is hereby closed without making the estimated supplementary call of 20%.

2020 Policy Year

The estimated supplementary call of 20% and release call rates of 25% for this year remain unchanged.

2021 Policy Year

The estimated supplementary call of 20% and release call rates of 25% for this year remain unchanged.

2022 Policy Year

The estimated supplementary call of 20% and release call rates of 25% for this year remain unchanged.

** Release calls under Owners' entries and FD&D cover above are set for each open policy year, taking into

account various risk factors, such as premium risk, reserve risk, catastrophe risk, market risk, counterparty default risk and operational risk. The release calls for 2020, 2021 and 2022 policy years are set at 5% of each advance call, and for 2023 at 3.5% of mutual premium.

2022 Naiko class entries

2023 Policy Year

Members' rates will be adjusted as appropriate to reflect their individual claims record to achieve a 15% increase in total Naiko class premiums.

2023 Laid-up returns

This provision is for Owners' entries, Charterers' entries and Naiko class entries. If the ship, completely free from cargo, is laid-up in any safe port or place for a period of thirty or more consecutive days after finally mooring there, Members will be entitled to a return of premiums paid attributable to the period of layup (the period shall be computed from the day of arrival to the day of departure, one day only being excluded) for their Entered Ship, the return calculated by multiplying the number of days laid-up by the return rate of 40%, whether the ship is laid-up with crew on board, or laid-up with no crew other than for maintenance or security.

2024 Changing the calling basis: Mutual Premium system

Mutual Premium system will be applied to Owners' entries and FD&D cover from the 2023 policy year. Please see our circular [No. 22-017](#) for further details.

2. Alterations to the Rules of the Association

Alterations to the following Rules were approved to be effective from 20 February 2023.

Rule 6 (CALLS AND PREMIUMS) / Rule 7 (PAYMENT OF CALLS AND PREMIUMS) / Rule 9 (CLOSING OF POLICY YEAR)

To address introduction of the new basis for charging calls, namely the "Mutual Premium system"

Rule 10 (CONTINUATION OF INSURANCE CONTRACT) (4)

To make it clear that (a) & (b) of the current Rule 10 (4) is better placed under Rule 11.3(3) & (4), as this enables the Association to cancel the contract of insurance without having to serve one month's notice upon Members of concern.

Rule 19 (LIABILITIES IN RESPECT OF SEAMEN) 1(5)

To clarify that the costs falling within the Club's cover as regards seamen's wages are limited to an overtime allowance paid solely as a consequence of the deviation.

Rule 26 (TOWAGE LIABILITIES)

The amendments are in line with the amendments to the Pooling Agreement

Rule 31 (FINES) 2(6)

The amendments are in line with the amendments to the Pooling Agreement.

Rule 35 (RISKS GENERALLY EXCLUDED) 1(8)

The amendments are in line with the amendments to the Pooling Agreement

Further details of these alterations will be reported to the Members in a Club circular to be issued in early February 2023.

3. Capital Increase of Hydra Insurance Company

Hydra Insurance Company Ltd. (“Hydra”) is the captive reinsurance vehicle established in Bermuda by the International Group of P&I Clubs. In the second quarter of the fiscal year 2022, the capital adequacy of Hydra Japan Cell, the protection cell for our account within Hydra, fell below the minimum capital requirement set by Hydra. The Board has therefore approved the increase of capital in Hydra Japan Cell by USD 17 million by 20 February 2023, to meet the requirement.

Yours faithfully,

The Japan Ship Owners’ Mutual Protection & Indemnity Association