STEAMSHIP MUTUAL

To the Members November 2008

Dear Sirs,

REVIEW OF OPEN POLICY YEARS – 2009/10 RENEWAL

At their Board Meeting on 27th/28th October, the Directors reviewed the position of the open policy years and considered the mutual premium ratings required for the 2009/10 policy year.

2006/07 Policy Year
The pure underwriting deficit on this policy year continues to improve and currently stands at US$ 12.9 million, before allocation of administration costs and investment income. The year will be considered for closure in May 2009. No additional call is anticipated.

2007/08 Policy Year
The pure underwriting surplus on this year has improved by some US$ 17 million since February and currently stands at US$ 17.1 million, before allocation of administration costs and investment income.

2008/09 Policy Year
At this early stage, it is difficult to predict with any certainty the outcome of the current policy year. However, on the basis of claims notified in the first eight months, the indications are that claims, in the layer up to US$ 250,000, are continuing to develop in line with projections, with the average size of such claims increasing in line with inflationary pressures. Claims estimated in excess of US$ 250,000 per claim are currently running at levels closer to the more moderate levels of 2007/08 than to the more extreme 2006/07 levels at the same stage, particularly when increases in tonnage are taken into account. There are no claims currently estimated to exceed the Pool entry point. A total of only four claims have been notified to the Pool by other Clubs so far, well below the levels notified last year at the same point, both by number and value.

The Directors were pleased to note the continued growth in the Club's owned entry which has increased, net of disposals, by 3.2 million GT in the first eight months of the year.

The fourth 25% instalment of Class 1 P&I Mutual Premium will be debited on 20th November in the normal way.

Investments
The extreme volatility being experienced in all investment markets, with signs that investors concerns are now shifting from bank failures and the liquidity crisis to the prospects of a lengthy and deep recession in part or all of the world economy, makes it almost impossible to make any reliable projection of the ultimate level of investment returns. In view of the negative investment returns achieved in the year to date and the longer term outlook for the financial markets, the Directors felt it necessary to review the Club's current combined ratio target of 108%. This target was based on the assumption that, over any three year period, investments would contribute an average return of 6.75%, in recent years more than sufficient to meet all administration costs not covered by premium.

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THE STEAMSHIP MUTUAL UNDERWRITING ASSOCIATION (BERMUDA) LIMITED
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Authorised and Regulated by the Bermuda Monetary Authority and the United Kingdom Financial Services Authority
(FSA registration number 202762)

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Ever since the bursting of the technology bubble in 2001/02, the Club has made clear its view that reliance on investment income to subsidise claims and expenses has to be reduced progressively. In view of the likelihood of there being no contribution at all from investments in the current year and the possibility that there may be little if any contribution next year as well, the Directors have decided it is essential to reduce the policy year combined ratio target to 100%, and to place no reliance on investment income making a contribution to the underwriting result. This will require net premiums for each policy year to be set at a level to achieve a technical breakeven result or better, i.e. to meet all retained claims and administration costs in full, with any investment income achieved accruing to reserves.

2009/10 Mutual Premium Ratings
Despite the relatively moderate levels of large claims notified to the Club so far in the current year and the low level of claims notified to the Pool over the same period, with the North Atlantic winter not yet underway, there remains a significant risk that the Club's claims experience could deteriorate in the second half of the year. With commodity prices falling, economic activity deteriorating and shipping activity showing signs of a rapid slow down, particularly in the bulk markets, the claims outlook is extremely difficult to predict. It may be that the upward pressure on large claims will abate somewhat but there is no evidence of any reduction in the frequency or size of routine claims and there is currently no basis to expect claims to reduce overall. Faced with uncertainty in the outlook for claims and extreme levels of financial market risk, the Club must ensure that any adverse developments are capable of being met by maintaining the strong and conservative approach to underwriting taken over recent years.

Despite the renewal increases achieved this year, even if it is assumed that claims next year will remain at levels similar to those of 2007/08 and 2008/09, current premium ratings are not sufficient to cover both projected claims and administration costs. To ensure a secure future for the Club, the Directors are convinced that it is essential that premiums for 2009/10 be set at levels which will enable the Club to achieve a breakeven technical result for the forthcoming policy year.

Accordingly the Directors have decided that:

Class 1 – Protection & Indemnity
Premium levels for the 2009/10 policy year should be subject to a standard increase of 17.5% before the assessment of record and any adjustments in reinsurance costs, whether up or down, will be passed on.

Deductibles to be raised to a minimum level of US$ 3,000 per claim and all deductibles up to US$ 25,000 to be subject to a standard increase of 10%.

Class 2 – Freight, Demurrage & Defence
Premium levels for the 2009/10 policy year should be subject to a standard increase of 15.0% before assessment of record.

The minimum cap on proportional deductibles to be raised from US$ 15,000 to US$ 25,000 per claim.

Mid Year Review
In December the Managers will be publishing a Mid-Year Review which will provide Members with more details of progress in the current financial year and an update on recent developments.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION (BERMUDA) LIMITED