



STEAMSHIP MUTUAL

To the Members

October 2009

Dear Sirs,

Review of Open Policy Years – 2010/2011 Renewal

At their Board Meeting on 26th/27th October, the Directors reviewed the position of the open policy years and considered the mutual premium ratings required for the 2010/2011 year.

2007/2008 Policy Year

The underwriting balance on this year has remained stable since February and the second instalment of additional premium of 7% will be debited on 20th May 2010, as already announced. No further call is anticipated and the year will be considered for closure in May 2010.

2008/2009 Policy Year

The underwriting balance on this year has improved by US\$ 12.6 million since February. As already announced, the second instalment of additional premium of 10% will be debited on 20th August 2010, subject to final review in July 2010. No further call is anticipated.

2009/2010 Policy Year

It is still too early to predict with any certainty the outcome of the current year. Whilst it is possible that the current economic difficulties will result in a levelling off or even reduction of claims, there is as yet no definite evidence to this effect. The average size of claims in the layer up to US\$250,000 is lower than in 2007 and 2008. In part, this is due to an increase in deductible levels. However claims in excess of US\$250,000 are showing an increase on recent years. The Club has notified one claim to the International Group Pool, currently estimated to be only slightly in excess of the US\$7 million retention level, and a total of eleven claims have been notified to the Pool by other Clubs so far. The overall value of these claims is higher than that at the same point in 2008.

The Directors were pleased to note the continued growth in the Club's owned entry which has increased, net of losses, by 3.3 million GT in the first eight months of the year.

The fourth 25% instalment of Class 1 2009/10 mutual premium will be debited on 20th November in the normal way.

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Investments

Despite maintaining the cautious overall asset allocation adopted at the beginning of the year, the combined investment portfolio achieved a return of 6.7% in the first eight months of the year with the Club and Trust's fixed income and hedge fund of fund managers all capitalising on the broad improvement in bond and equity markets since March. The rapid market recovery has been supported by an unprecedented level of government stimulus, which will be withdrawn at some stage, leaving the outlook for future returns very uncertain.

At their October meeting, the Board approved a new investment asset allocation which will be implemented gradually over the next 12 months. Further details will be provided in the Mid Year Review.

2010/2011 Mutual Premium Ratings

The downturn in the world economy may lead to a reduction in the number and value of claims. However, the timing and extent of any reduction is impossible to gauge. Certainly the evidence so far is inconclusive. It is unfortunate that the economic downturn coincides with an unprecedented number of new buildings coming onto the market. The inevitable consequence will be a higher than normal level of tonnage being laid-up. Again, the extent of such lay-up is very difficult to estimate. It is also expected that the Club will experience a considerable degree of churn, i.e. the replacement of older higher rated tonnage with newer lower rated tonnage reducing the Club's average premium per GT. Inevitably, given the current economic circumstances, the investment outlook remains unclear as risks rise with the markets. Given these uncertainties, the Directors are convinced that premiums for 2010/2011 must be set at levels which will enable the Club to achieve a break-even technical result for the forthcoming policy year.

Accordingly, the Directors have decided that:

- Class 1 - Protection & Indemnity

Premium levels for the 2010/2011 policy year should be set subject to a standard increase of 5% before the assessment of record and exposure and any adjustments in reinsurance costs, whether up or down, will be passed on.

- Class 2 - Freight, Demurrage and Defence

Fortunately the high level of estimates seen in the 2008 year has not been repeated in 2009 and the Directors have not felt it necessary to set a standard increase for this class of business.

Mid-Year Review

In December the Managers will be publishing the 2009 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

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