



STEAMSHIP MUTUAL

To the Members

February 2012

Dear Sirs,

FINANCIAL UPDATE

At a Board Meeting in Rio de Janeiro, Brazil on 30th and 31st January 2012 the Directors reviewed a number of matters including the financial position of the Club and the International Group's reinsurance programme for 2012/13, and they have asked the Managers to bring the Members up to date with developments.

Financial Update

Combined owned entered tonnage rose by a net total of 7.1 million tons in the period 20th February 2011 to 20th January 2012, increasing the Club's total tonnage to in excess of 100 million GT.

At the 11 month stage of the 2011/12 policy year attritional claims are higher in number and value than at the same point last year and total cost is 5% higher than last year on a tonnage adjusted basis. The number of claims estimated in excess of US\$1 million is markedly up on recent years' experience. However, the average severity is lower and so the total cost of these claims is consistent with recent years. As at 20th January there were still 9 claims notified by Clubs to the International Group Pool.

The improvement in the projected cost of prior year claims that was noted in the Pre Renewal Report has continued in January although the Managers still expect prior year claims deterioration at the end of the year.

The combined total return on the Trust and Clubs' investments for the 11 months to 20th January stood at US\$27.9 million, equivalent to a return of 2.9%. The investment return has continued to moderate the impact of the prior year claims deterioration so that only a modest reduction in free reserves is expected at year end.

Standard & Poor's affirmed the Clubs' financial strength rating of A- with a stable outlook on 17th January.

International Group Reinsurances - Policy Year 2012/13

Pooling

For the 2012/13 policy year, the retention of individual Clubs before pooling will remain at US\$8 million each claim.

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THE STEAMSHIP MUTUAL UNDERWRITING ASSOCIATION LIMITED
Authorised and Regulated by the United Kingdom Financial Services Authority
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Excess Loss Renewal

The entry point for the Group's Excess Loss contract will remain at US\$60 million per claim. Until recently, premium rates (including Hydra) for the 2012/13 policy year had been expected to fall, as set out below:

Vessel Category	US\$ per GT	Change
Dirty tankers	0.6515	- 7.43%
Clean tankers	0.2798	- 8.41%
Dry cargo	0.3561	- 3.99%
Passenger	1.3992	- 5.33%

Towards the end of January 2012 however, there was a significant deterioration in the first layer of the Group's excess loss reinsurance (US\$500 million excess of US\$60 million). As a result, the Group's brokers have indicated that the cost of reinsurance in that layer is likely to increase. Nevertheless, the Directors have decided that the Club should absorb its share of the Group's additional reinsurance cost at this renewal, without passing it on to the Members, and that the premium reductions set out above may still be applied after any necessary adjustments for record.

US Oil Pollution Surcharge

The system of surcharges for voyages by tankers carrying persistent oil cargoes to the United States will continue. However, the rates of surcharge for such voyages will reduce by approximately 30% to reflect the continuing improvement in the tanker record.

War Risks

War risks remain excluded from regular cover provided under the Rules, but the Club will continue to provide a special extension of cover for war risks in excess of the war risk P&I cover provided in most hull and machinery war risk policies. The limit of this cover will remain at US\$500 million each vessel any one event. As with all covers supported by market reinsurance, there will be an exclusion of claims where payment would expose the Club or its reinsurers to sanctions. In addition, the Club will continue to provide pooled cover for a restricted range of risks covered by the "bio-chem exclusion" in war risk policies up to a limit of US\$30 million any one event each vessel.

US Terrorism Risk Insurance Act 2002

The Club will continue to make available cover for terrorism as part of the war risk extension set out above and the estimated cost of this element of cover remains at US\$0.0025 per GT.

Freight Demurrage and Defence

The level of cover available has always been subject to the discretion of the Club's Directors, and this will continue with an upper limit of US\$10 million per claim.

Yours faithfully,

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