STEAMSHIP MUTUAL

To the Members

January 2009

Dear Fellow Members,

Attached to this letter is a Club Circular which sets out the results of discussions which took place at a recent meeting of the Club's Board of Directors in Amsterdam. The Directors have decided that, because of the impact of the worst investment markets since the 1930s on the surplus assets of the Club and the Trust coupled with the very uncertain economic outlook, the Club needs to recapitalise by levying additional premium.

As you can imagine, as shipowners and fellow Club members, we took this decision only after very careful thought and deliberation. We are acutely aware of the unwelcome nature of this announcement particularly in view of the current difficulties in the freight market. When we asked the Managers to update you after the October Board Meeting, the depth of the investment markets' November collapse could not have been anticipated and we were hopeful that the Trust's investment performance would stabilise or even improve in the near term. Events have conspired against this. One of the Board's primary obligations to you, as a Club member, is to ensure that Steamship maintains its position as top class security for your claims, acceptable at all levels throughout the world and meets the capital adequacy requirements of all the Club's regulators. With this in mind, we have decided that, despite the Club's recent strong underwriting performance, it is necessary to put the Club in a position to raise additional capital, totalling approximately US$80 million, spread over the next two years to minimise the impact on cashflow.

However unpalatable this news may be in the short term, I hope that you will agree that it is of paramount importance that the Club's financial strength is maintained, particularly at a time when all shipping markets are under such pressure, in order that the Club can continue to provide first class service to us all.

Yours sincerely,

Otto Fritzner
Chairman
THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION (BERMUDA) LIMITED

THE STEAMSHIP MUTUAL UNDERWRITING ASSOCIATION (BERMUDA) LIMITED
Registered Office: Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda
Authorised and Regulated by the Bermuda Monetary Authority and the United Kingdom Financial Services Authority
(FSA registration number 202762)

MANAGERS: STEAMSHIP MUTUAL MANAGEMENT (BERMUDA) LIMITED
WASHINGTON MALL I, PO BOX HM 447, HAMILTON HM BX, BERMUDA
Tel: (441) 295 4502 Fax: (441) 292 8787 Website: www.simsl.com

STEAMSHIP MUTUAL

To the Members

January 2009

Dear Sirs,

RECAPITALISATION

At their meeting in Amsterdam on 27th January 2009, the Board reviewed the Club's capital position and has decided to authorise the levying of additional premium. The Board and the Managers are acutely aware of the unwelcome nature of this announcement, particularly in view of the current difficulties in the freight market. The purpose of this circular is to set out the decisions taken by the Board and to explain the background to those decisions.

Members are only too well aware that the climate for investment world-wide has deteriorated dramatically, with financial institutions facing the most serious threat to their capital resources in living memory, as the result of a simultaneous collapse in the equity and non-government bond markets. Inevitably these changes affected the combined investment holdings of the Club and the Trust. As a result, although the combined portfolio was of high quality overall, very significant losses had been incurred, amounting to over US$95 million as at 23rd January 2009.

At their meeting in Amsterdam, the Directors were advised that, despite positive underwriting results, these substantial investment losses had eroded the combined reserves to a level which would be inadequate to support the future operation of the Club in the medium term. While it is impossible to predict what the exact position will be as at 20 February 2009, by January 2009 investment market conditions had resulted in the combined free reserves reducing from US$185.8 million, as at 20 February 2008, to a projected level of US$106.4 million, as at 20 February 2009. Investment markets continue to be depressed and volatile and their future direction remains highly uncertain.

Against this background, the Directors have decided that additional capital must be raised, by levying additional Class 1 Protection and Indemnity premium for the open policy years, as follows:

2006	12.5% additional premium	12.5% to be debited on 20th May 2009;
2007	14% additional premium	7% to be debited on 20th August 2009 and 7% to be debited on 20th May 2010
2008	20% additional premium	10% to be debited on 20th August 2009 and 10% to be debited on 20th August 2010.

These decisions are based on a conservative assessment of the Club's financial position and are designed to avoid the need for any further action to increase reserves in the foreseeable future. In reaching these decisions, the Directors took into account the following factors :-

a) The paramount importance of ensuring that the Club maintains an adequate level of capital in the long-term. The additional debits set out above are designed to raise a total of approximately US$80 million. The net effect on the level of free reserves that will be shown in the Club's and Trust's balance sheets as at 20th February 2009 will, of course, depend on outstanding claims and other factors as at that date, but the intention is to restore them to the approximate level applying at the beginning of the year;

B.482

b) The Corporate Trustee having reduced the risk of future losses by liquidating the Trust's equity portfolio and reducing the exposure to alternative asset categories by 50%, the prospect of any recovery of investment losses is largely confined to the bond markets. However, in these uncertain times, the Directors felt that it would be wrong to put any reliance on a significant recovery in the value of the combined investment portfolio. It is of much greater importance to safeguard against the risk of future losses posed by the current unstable investment environment. While the regulatory climate may permit a degree of latitude in respect of the maintenance of prudent capital levels in the short term, the Club nevertheless had to bring its capital back to the required levels as soon as reasonably possible;

c) There is considerable doubt about the future level of claims. The shipping markets are under great stress, with cargo volumes contracting and freight rates, in a number of major markets, falling to historical lows. As yet, it is too early to establish what effect these pressures will have on P&I claims in the immediate future. In this very uncertain climate, whatever may occur over the longer term, the Directors do not feel that it would be prudent to place any reliance on claims levels falling significantly, or at all, during 2009 and allowance has to be made for the possibility that market stresses could cause claims to rise in the short term;

d) In phasing the debiting of the additional premium over a two year period, the Directors have tried to minimise, as far as possible, the adverse cash flow effects on Members.

Release Calls

The Directors have decided that the release call margin should be kept in line with market levels and remain at 25% of Mutual Premium for all open years including 2009/10, in addition, where applicable, to the additional premiums set out above.

Underwriting Year Update

The Directors expect to close the 2006 year, in accordance with the normal timetable, in May 2009.

The overall combined net claims projections for the 2007/08 and prior policy years have improved by US$19.4 million since 20th February 2008, boosting the positive underwriting performance that the Club has achieved in recent years.

It remains too early to predict with certainty the likely outcome of the 2008/09 policy year. All indications are that the claims patterns highlighted in the Mid Year Review have continued over the last two months, for all the reasons set out in detail in that Review, and the expectation is for a further improvement in underwriting performance compared to earlier years. Claims on the International Group Pool have also continued to be reported at significantly lower levels than in the two prior years, with only six claims notified as at 20th January with a total estimated value, net of retention, of US$86.6 million. The Club itself has yet to be notified of any claims for the current year estimated in excess of US$7 million.

The future

While the Directors regret the need to take the steps outlined above, they believe that they are in the best interests of the Club's Members and are essential to safeguard the Club's long term security. In recent years, the Club has devoted very considerable effort to achieving a high quality membership and a strong underwriting position. The claims on 2007/08 and prior years are continuing to improve and, at this early stage, the projected underwriting results for 2008/09 look likely to produce a significant pure underwriting surplus. The standard increase set for the forthcoming renewal has been designed to free the Club from future reliance on investment income to achieve financial breakeven and the combined investment portfolio's assets have been re-allocated to reduce substantially any future risk of loss. The additional capital raised will restore the Club's reserves to the level necessary to sustain its business for the foreseeable future and enable it to meet all known regulatory requirements. The steps the Directors have taken will enable current and prospective Members to face an uncertain future confident in both the Club's first class service and its financial security.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION (BERMUDA) LIMITED

THE STEAMSHIP MUTUAL UNDERWRITING ASSOCIATION (BERMUDA) LIMITED
Registered Office: Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda
Authorised and Regulated by the Bermuda Monetary Authority and the United Kingdom Financial Services Authority
(FSA registration number 202762)

MANAGERS: STEAMSHIP MUTUAL MANAGEMENT (BERMUDA) LIMITED
WASHINGTON MALL I, PO BOX HM 447, HAMILTON HM BX, BERMUDA
Tel: (441) 295 4502 Fax: (441) 292 8787 Website: www.simsl.com