



STEAMSHIP MUTUAL

To the Members

February 2010

Dear Sirs,

FINANCIAL UPDATE AND REVIEW OF REINSURANCES FOR THE 2010/11 POLICY YEAR

At their Board Meeting in Hong Kong on 25th / 26th January, the Directors reviewed a number of matters including the financial position of the Club and the International Group's reinsurance programme for 2010/11, and they have asked the Managers to bring the Members up-to-date with developments prior to the forthcoming renewal.

Financial Update

Combined owned entered tonnage has now risen by a net total of 3.9 million GT to 55.8 million GT year on year, increasing the Club's total tonnage to 85 million GT.

As usual at this stage it remains too early to predict with certainty the likely outcome of the 2009/10 policy year. Attritional claims frequency and severity remain lower than in recent years, influenced by deductibles, and more random, larger value claims in the retention are similar to the level experienced in the 2007/08 year. The number of claims notified by Clubs to the International Group Pool has continued to escalate, from 13 in November to 19 in January. The Club's claims projections for the 2008/09 and prior policy years have improved by US\$15.3 million since 20th February 2009.

The combined total return on the Trust and Clubs' investments for the 11 months to 20th January stood at US\$49.6 million, equivalent to a return of 8.4%.

International Group Reinsurances - Policy Year 2010/11

Pooling

For the 2010/11 policy year, the retention of individual Clubs before pooling will increase from US\$7 million to US\$8 million each claim.

Excess Loss Renewal

Although the premium payable to the reinsuring underwriters has increased, the increase in rates per GT payable by Members has been diluted by the increase in the Group's tonnage. The premium payable to the Group captive Hydra is, as usual, included within the Excess Loss rates set out below, and this has further reduced the average rating level.

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THE STEAMSHIP MUTUAL UNDERWRITING ASSOCIATION (BERMUDA) LIMITED
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Record trends have indicated a continued reduction in the proportion of claims brought by tankers and passenger vessels by comparison with dry cargo vessels. The percentage increase or reduction in each category of vessel constitutes a modest adjustment in line with those trends, and the actual rates for 2010/11 are set out below:

Vessel category	US\$ per GT	Change
Dirty tankers	0.7554	-6.5%
Clean tankers	0.3335	-9.04%
Dry cargo vessels	0.3867	+4.66%
Passenger vessels	1.5654	-2.32%

In accordance with the decision of the Directors at their meeting in October, the adjustments represented by these rates will be applied in addition to the standard increase subject to 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 16 %.

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. 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. The estimated cost of this element of coverage 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, but an upper limit of US\$10 million per claim will apply for 2010/2011.

Yours faithfully,

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