



STEAMSHIP MUTUAL

To the Members

January 2011

Dear Sirs,

FINANCIAL UPDATE AND REVIEW OF REINSURANCES FOR THE 2011/12 POLICY YEAR

At their Board Meeting on 24th and 25th January in Mumbai, the Directors reviewed a number of matters including the financial position of the Club and the International Group’s reinsurance programme for 2011/12, and they have asked the Managers to bring the Members up to date with developments.

Financial Update

Combined owned entered tonnage has now risen by a net total of 6.0 million GT to 59.2 million GT year on year, increasing the Club’s total tonnage to 89 million GT.

As usual at this stage it remains too early to predict with certainty the likely outcome of the 2010/11 policy year. Attritional claims frequency and severity remain higher than in recent years across nearly all categories of claims, and more random, larger value claims in the retention are running at a more normal level after being unusually low in 2009/10. The number of claims notified by Clubs to the International Group Pool has increased from 11 in November to 16 in January. The Club’s claims projections for the 2009/10 and prior policy years have improved by US\$31.3 million since 20th February 2010.

The combined total return on the Trust and Clubs’ investments for the 11 months to 20th January stood at US\$32.0 million, equivalent to a return of 3.7%.

International Group Reinsurances - Policy Year 2011/12

Pooling

For the 2011/12 policy year, the retention of individual Clubs before pooling will remain at US\$8 million each claim.

Excess Loss Renewal

The entry point for the Group’s Excess Loss contract will increase from US\$50 million to US\$60 million per claim, and the additional US\$10 million of pooled risk will be reinsured into the Group’s captive, Hydra. Premium rates per GT, which include the premium payable to Hydra, will reduce for all vessels. As usual, modest adjustments have been made to rates for individual vessel types to reflect broad trends of record, and the resultant rates for 2011/12 are set out below:

Vessel Category	US\$ per GT	Change
Dirty tankers	0.7038	- 6.83%
Clean tankers	0.3055	- 8.40%
Dry cargo	0.3709	- 4.09%
Passenger	1.4780	- 5.58%

The reductions represented by these rates will be applied after any necessary adjustments for record.

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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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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 12.5 %.

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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