1909 – 2009

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STEAMSHIP MUTUAL

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A century of service to shipping

To the Members May 2009

Dear Sirs,

FINANCIAL UPDATE AND 2009 RENEWAL

The Reports and Accounts of the Club, The Steamship Mutual Underwriting Association (Bermuda) Limited and The Steamship Mutual Trust were approved by their respective Directors, at Board Meetings held in New York, USA, on 11th and 12th May, and will be published together in June. In advance of their publication, the Directors have asked the Managers to bring the Members up to date with the Clubs' financial position.

Financial Year Results

The 2008/09 financial year has proved to be a relatively benign year for large claims but a uniquely challenging one for the financial markets, with all institutional investors experiencing record levels of investment losses. As Members are very aware, the serious investment losses faced by Steamship Mutual made it necessary, despite the Club's increasingly positive underwriting results, for the Directors to levy additional premium on the open years to raise US$80 million of new capital. The additional premium raised, combined with positive underwriting results, has enabled the Clubs and the Trust to achieve a combined overall operating surplus of US$1.87 million and a 1.0% increase in free reserves, to US$187.7 million, in line with the targets set by the Directors in January.

At the technical level, excluding the additional premium raised, a combined operating surplus of US$26.2 million was achieved, with the combined results benefiting from a US$20 million reduction in the projections for earlier year claims, as verified by the Club's external actuaries. This has enabled the Clubs and the Trust to achieve an overall combined ratio of 90.3% for the financial year and an average combined ratio of 104.5% over the three years to 20th February 2009, excluding the additional premium.

As indicated in previous circulars, gross claims notified in respect of the 2008/09 year have continued to run at levels at or below those experienced in 2007/08 and are now some US$74 million below the level for that year at the twelve month stage. 13 claims in 2008/09 are estimated to exceed US$1 million, up from 11 such claims in the previous year. Out of those 13 claims, none is estimated to exceed the Pool entry point. Net of reinsurance recoveries, the picture is comparable. The level of net incurred claims on the 2008/09 policy year is US$21 million below the level of the previous year at the same stage. The available evidence continues to indicate that the distribution of large claims amongst Group Clubs is largely random even though the total number is currently diminishing and, so far, it appears that the Club has avoided any exposure to such claims in 2008/09.

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THE STEAMSHIP MUTUAL UNDERWRITING ASSOCIATION LIMITED
Authorised and Regulated by the United Kingdom Financial Services Authority
(Registered No. 105461 : FSA registration number 202548)

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A detailed analysis of claims in the 2008/09 policy year will be included in the Management Highlights which will be published in June. However the lower level of net incurred claims should not be assumed to indicate that the reduction in the cost of claims seen over the last two years will continue in the forthcoming year. The Directors take the view that, even though there is an overall decline in shipping activity and evidence of an improvement in the chronic shortage of experienced crew, it will take time for the reduction in activity to flow through to routine incurred claims and may only have a marginal effect in 2009/10. Lower activity may also eventually reduce the overall level of large claims but where and when they occur will remain unpredictable.

Other factors contributing to the result for the year were:

(i) **Investments**

The combined total loss on investments amounted to US$78.5 million, or 11.3%. To this has to be added unrealised currency losses, of US$22.7 million. These losses were recorded on non-dollar investments, as the US Dollar appreciated, and were substantially offset by equivalent reductions in the value of non-US dollar claims. Together these caused the overall total of cash and investments to fall by US$99.4 million, to US$590.8 million, seriously eroding the capital resources of the Clubs and the Trust. This extremely adverse investment result was largely attributable to a simultaneous and unprecedented collapse in the equity and corporate bond markets, in response to the failure of such institutions as Lehman Brothers and the consequent liquidity crisis in the last quarter of 2008, combined with significant underperformance by the manager responsible for both the Club and Trust's US dollar bond portfolios.

(ii) **2008/09 Policy Year**

At year end, the total of projected net claims including IBNRs, for 2008/09, is very similar to that for the previous year at the same stage. Consequently the increases in premium and improvements in terms achieved at the last renewal have proved to be more than sufficient to achieve a healthy balance for the policy year, a pure underwriting surplus of US$39.9 million, before taking account of additional premium, administration costs or investment results;

(iii) **2007/08 and earlier Policy Years**

Overall the financial year saw a substantial further reduction in claims exposure for the earlier policy years which, when combined with premium and other adjustments, resulted in an overall improvement of US$27.1 million. As far as the other open policy years are concerned, the pure underwriting loss on 2006/07 has fallen by US$1.6 million, to US$13.7 million, and the previous breakeven result on 2007/008 has improved significantly, rising to a surplus of US$20.2 million.

2006/07 Policy Year

The Directors reviewed the position in relation to the open years and came to the following decisions:

(i) 2006/07 – Class 1 P&I

The Directors resolved that the year should be closed, following the debiting of the 12.5% additional premium payable on 20th May;

(ii) 2006/07 – Class 2 FD&D

The Directors resolved that the year should be closed without additional premium.

2009 Renewal

In all the circumstances, 2009 proved to be a very positive renewal, where the Club was successful in achieving the increases necessary to sustain its underwriting position. The overall combined increase actually achieved at the renewal was in the region of 13.5%, after allowing for adjustments in terms, against the background of the Directors having set a general increase of 17.5%. Given the market environment and the highly regrettable necessity to raise additional capital, the Directors greatly appreciate this very supportive response from the membership as a whole, which indicates their understanding of the challenges faced by the Club.

In addition, there was a small increase in combined owned entered tonnage at the renewal, with 2.1 million GT of new entries being offset by 1.8 million GT where renewal was not offered or could not be agreed. The additional entries generated new premium, net of premiums for fleets not renewed, of US$8.5 million. Over the year as a whole, owned entered tonnage increased by 3.0 million GT, taking total entered tonnage to over 75 million GT, as at 20th February 2009.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION LIMITED