



THE LONDON

STEAM-SHIP OWNERS'
MUTUAL INSURANCE ASSOCIATION LIMITED

All correspondence should be addressed to the Managers

A. BILBROUGH & CO. LTD
50 Leman Street London E1 8HQ
Telephone: 020 7772 8000
Facsimile: 020 7772 8200
E-mail: london@a-bilbrough.com
www.lssso.com

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TO ALL MEMBERS

Dear Sirs

CALLS - CLASS 5 - PROTECTING & INDEMNITY

The Committee has recently reviewed the position in respect of open Policy Years as well as the prospects for the next Policy Year and reached decisions in respect of Advance, Deferred, Additional and Release Calls as follows:

2005/2006: The year has developed satisfactorily and will be closed without further call.

More Recent Years and the Future

Members will be aware from the 23 November 2007 circular and from the 2008 Annual Report that, beginning in 2006, the Association has been experiencing very high levels of claims (most particularly claims on the International Group Pool, of which it has to bear its share) and, since the middle of 2007, the negative impact of the "credit crunch" on investments. As a consequence, the Association's free reserves fell to just under US\$81m at 20 February 2008. Although capitalisation remained strong at that level and reserves have been at that level before, in 2003, they no longer represent a comfortable margin in excess of regulatory requirements.

As the current year has developed, it has become obvious that investment out-performance cannot be expected to lead to free reserves being brought back up to a comfortable level in the foreseeable future. Indeed, at the time that the Committee met recently, the investment environment had worsened, with no prospect of an early respite. Nor is there any sufficiently strong sign that the high level of claims experienced over the last two years will moderate, again to help improve the level of reserves. Furthermore, it is clear that the substantial subsidy from investment income, used to reduce premium levels for many years now, cannot be relied upon in the foreseeable future.

Accordingly, the Committee has decided that firm and decisive action needs to be taken to restore free reserves to a comfortable level, particularly in the context of the stronger regulatory capital requirements that are expected to apply under Solvency II in 2012. This has led the Committee to the conclusion, with great regret, that Additional Calls must now be levied and that an increase in Advance Calls going forward is required as set out overleaf. This conclusion has not been reached lightly and the Committee recognises how unwelcome the decisions will be to Members. However, it feels that in the current environment, it would be wise to take early and substantial action so as to reduce as much as is reasonable the risk of having to take further action as events unfold. The Committee has therefore decided as follows:



2006/2007: An Additional Call has been set, and will be payable in accordance with Rule 32.4, at 35% of the Estimated Total Cost (the ETC) for the year. This Additional Call will be payable on 20 December 2008. The year will be considered for closure by the Committee in October 2009, in accordance with the usual procedure.

2007/2008: An Additional Call has been set, and will be payable in accordance with Rule 32.4, at 35% of the ETC. This Additional Call will be payable on 20 May 2009. The Deferred Call previously set by the Committee remains due on 20 October 2008 i.e. in a few days time.

2008/2009: The Deferred Call of 40% of the Advance Call shall be paid in accordance with Rule 32.3 and it will become payable on 20 October 2009. Further, an Additional Call has been set, and will be payable in accordance with Rule 32.4, at 25% of the ETC. This Additional Call will be payable on 20 December 2009.

These Additional calls have been set in the context of the current extreme uncertainty in the financial markets. The Committee will be keeping developments under very close review and if the investment environment improves sufficiently, some relief may be afforded to Members by reducing the calls set above, most likely in respect of the 2008/2009 year.

The Committee has also set rates for Release Calls for each of the open years in accordance with Rule 36.2. These rates are the equivalent, in respect of each open Policy Year, of Deferred and Additional Calls which have been set by the Committee, but not yet become due, plus the same 20% "release call uplift" that has applied for many years.

The Committee also reached a decision in respect of call requirements for the forthcoming **2009/2010** Policy Year and against the background of the continuing high level of claims and the extremely uncertain investment environment, determined, in accordance with Rule 32.6, a General Increase in Advance Calls of 15% before adjustments in respect of individual records. Any adjustment to the cost of the Association's share of the Group's excess loss reinsurance programme, which has not yet been determined, will also be applied. The estimated Deferred Call for 2009/2010 has been set at 40% of the Advance Call.

The Release Call rate is set at the Deferred Call rate plus 20% of the Advance Call rate.

Yours faithfully
A BILBROUGH & CO LTD
(MANAGERS)