



STEAMSHIP MUTUAL

To the Members

February 2007

Dear Sirs,

FINANCIAL UPDATE AND REVIEW OF REINSURANCES FOR THE 2007/08 POLICY YEAR

At their Board Meeting in Rome on 29th/30th January, the Directors reviewed a number of matters including the financial position of the Club and the International Group's reinsurance programme for 2007/08, 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 risen by a net total of 2.6 million GT year on year.
- The overall combined net claims projections for the 2005/06 and prior policy years have improved by US\$1.0 million.
- The combined total return on the Trust and Clubs' investments had risen by just over US\$6 million, to US\$43 million, over the last two months, equivalent to a return of 7.7%.

It remains too early to predict with certainty the likely outcome of the 2006/07 policy year. All indications are that the pattern of claims increases highlighted in the Mid Year Review have continued over the last two months, for all the reasons set out in detail in the Review. Most notably claims on the International Group Pool have continued to escalate, with notified claims rising from US\$132 Million in November to US\$182 million in January, another record.

International Group Reinsurances - Policy Year 2006/07

Pooling

- For the 2007/08 policy year, the retention of individual Clubs before pooling will increase from US\$6 million to US\$7 million each claim.

Excess Loss Renewal

- The International Group reinsurance programme has been restructured. The US\$2 billion cover (US\$1 billion for pollution claims) purchased for the current year will now be on a free and unlimited basis, and a further US\$1 billion of collective Group Overspill cover will be available, with limited reinstatements.

L.60

- Club cover will be limited to US\$3 billion per claim, for claims in respect of passengers and seamen, with a sub-limit of US\$2 billion for passenger claims alone.
- 25% of the first layer of the contract, from US\$50 million to US\$550 million each claim, will again be covered by the Group's captive, Hydra Insurance Company Limited, together with the layer US\$20 million excess of US\$30 million each claim.
- All these elements, together with the premium for the Club excess cover for War Risks (see below) will be consolidated, as in the current year, and the relevant rates are set out below. The rate for passenger vessels has increased substantially. Ratings for other vessel types are very similar to those of the current year.

DIRTY TANKERS	US\$0.6797 PER GT
CLEAN TANKERS	US\$0.3187 PER GT
DRY CARGO VESSELS	US\$0.2837 PER GT
PASSENGER VESSELS	US\$1.3714 PER GT

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 4.5%.

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. 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.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION LIMITED