



STEAMSHIP MUTUAL

To the Members

February 2008

Dear Sirs,

FINANCIAL UPDATE AND REVIEW OF REINSURANCES FOR THE 2008/09 POLICY YEAR

At their Board Meeting in Tunis on 29th January, the Directors reviewed a number of matters including the financial position of the Club and the International Group's reinsurance programme for 2008/09, 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 3.4 million GT year on year.
- The overall combined net claims projections for the 2006/07 and prior policy years have improved by US\$24.5 million.
- The combined total return on the Trust and Clubs' investments for the 10 months to the end of December stood at US\$35.3 million, equivalent to a return of 5.7%. In view of the volatility of the investment markets since the beginning of 2008, there can be no certainty that this level of return will be maintained at year end.

Similarly, it remains too early to predict with certainty the likely outcome of the 2007/08 policy year. All indications are that the claims pattern highlighted in the Mid Year Review has 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\$165 million in November to US\$176 million in January, not including the "Hebei Spirit" claim which has yet formally to be notified to the Pool.

International Group Reinsurances - Policy Year 2008/09

Pooling

For the 2008/09 policy year, the retention of individual Clubs before pooling will remain at US\$7 million each claim.

Excess Loss Renewal

After a major amendment to the structure of the International Group reinsurance last year, the programme has been renewed on a similar basis for 2008/09. Although a cash increase was required, the continuing increase in the tonnage insured by the International Group resulted in a marginal reduction in the average cost per ton paid to the market.

- 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. The premium for this latter layer has increased substantially, because of the very poor claims experience, to which reference was made in the 2007 Mid Year Review.

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- 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 dirty tankers has increased somewhat less than the average, and that for dry cargo vessels somewhat more than the average, reflecting continued movement in their respective records.

DIRTY TANKERS	US\$0.7300 PER GT
CLEAN TANKERS	US\$0.3498 PER GT
DRY CARGO VESSELS	US\$0.3196 PER GT
PASSENGER VESSELS	US\$1.4985 PER GT

In accordance with the decision of the Directors at their meeting in October, the increases in these rates will be charged in addition to the standard increase and 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 10%.

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 TRIA program has now been extended for a further seven years, until 31st December 2014, and the Club will continue to make available cover for terrorism as a part of the War Risks extension set out above. The estimated cost of this element of coverage remains at US\$0.0025 per GT.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION LIMITED