STEAMSHIP MUTUAL

To the Members May 2007

Dear Sirs,

FINANCIAL UPDATE AND 2007 RENEWAL

The Reports and Accounts of the Club, The Steamship Mutual Underwriting Association Limited and The Steamship Mutual Trust were approved by their respective Directors at Board Meetings held in Pissouri, Cyprus on 14th and 15th 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 2006/07 financial year has proved to be a difficult year for P&I, with the industry as a whole experiencing record levels of large claims. Steamship Mutual has weathered these difficulties successfully, achieving an overall operating surplus of US$ 773,000 and a rise in free reserves to US$ 158.1 million, despite the high claims levels projected for the 2006/07 policy year. The combined results of the two Clubs and the Trust benefited from a further reduction in earlier year claims and a better than forecast investment return. However, as indicated in previous circulars, claims notified in respect of the 2006/07 year have continued to run at historically high levels, now more than US$ 25 million above 2005/06 at the same stage. This includes 17 claims in excess of US$ 1 million, two of which are currently estimated to exceed the Pool entry point. Net of reinsurance recoveries, the increase in incurred claims over the previous year rises to US$ 41.0 million. Although all the evidence indicates that the distribution of large claims amongst Clubs remains random, there is evidence to indicate that the industry-wide increase in the incidence of large claims is being fed by a combination of high activity levels, rising costs and an ever increasing shortage of skilled and experienced officers. A detailed analysis of claims in the 2006/07 policy year will be included in the Management Highlights which will be published in June.

Other factors contributing to the result for the year were:

(i) Investments
The combined total return on investments amounted to US$ 54.1 million, or 9.2%, a substantial improvement on earlier projections. The overall total of cash and investments increased by 16.0%, to US$ 670.0 million, as the result of the acceleration in the premium debiting pattern, investment appreciation and other cash inflows. All the major asset categories made a positive contribution to this return with bonds, in particular, outperforming their benchmark. The weakness of the US dollar combined with a modestly underweight position resulted in currency gains contributing US$ 8.7 million, around 16% of the overall return.

(ii) 2006/07 Policy Year
The fact that projected net claims, including IBNRs, for 2006/07 are some 26.3% above the level for 2005/06, means that, despite the effect of increases in premium and improvements in terms achieved at the last renewal, the policy year is projected to produce the first pure underwriting deficit in four years, before taking account of administration costs or investment income;

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(iii) 2005/06 and earlier Policy Years

Overall the financial year saw a further reduction in claims exposure for the earlier policy years which, when combined with premium and other adjustments, resulted in an improvement in prior years of US$ 13.0 million. As far as the open years are concerned, the pure underwriting surplus on the 2004/05 policy year has risen to US$ 19.8 million and that on the 2005/06 policy year has risen to US$ 13.1 million;

2004/05 Policy Year

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

(i) 2004/05 – Class 1 P&I

The Directors resolved that the year should be closed without further call;

(ii) 2004/05 – Class 2 FD&D

The Directors resolved that the year should be closed without further call.

Release Calls

The Directors have confirmed that the release calls for both Class 1 (P&I) and Class 2 (FD&D) should continue to be set at 25% of mutual premium for all open years.

2007 Renewal

2007 proved to be a good renewal where the Club was successful in achieving the increases necessary to maintain its financial strength. The overall combined increase actually achieved at the renewal was in the region of 8.6%, after allowing for adjustments in terms, against the background of the Directors having set a general increase of 9.0%. Given the market environment, the Directors believe that this is a very encouraging response from the membership as a whole.

Combined owned entered tonnage increased by just under 500,000 GT at the renewal, with 2.0 million GT of new entries being offset by 1.5 million GT where renewal was not offered or could not be agreed. This gain has to be added to the net increase of 1.5 million GT achieved during the policy year, to give an overall net increase of around 2.0 million GT year on year. As a result, the owned entered tonnage, as at 20th February 2007, rose to 43.5 million GT which, with the addition of chartered tonnage, brings the total combined entered tonnage to around 66 million GT.

Prospects for the 2007/08 Policy Year

The Steamship Mutual Clubs can face the future with confidence. The underlying financial position remains strong and progress continues in expanding the Clubs' high quality underwriting base on sustainable terms.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION (BERMUDA) LIMITED