STEAMSHIP MUTUAL

To the Members May 2008

Dear Sirs,

FINANCIAL UPDATE AND 2008 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 Geneva, Switzerland on 12th and 13th 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 2007/08 financial year has proved to be another challenging year for P&I, with the industry as a whole continuing to experience record levels of large claims. Steamship Mutual has been successful in meeting these challenges, achieving an overall operating surplus of US$ 27.6 million and a 17.5% increase in free reserves, to US$ 185.8 million, despite the continued high claims levels projected for the 2007/08 policy year. In particular the combined results of the two Clubs and the Trust benefited from a further significant reduction in the projections for earlier year claims, verified by the Club's external actuaries. This has enabled the Clubs and the Trust to achieve an overall combined ratio of 97.9% for the financial year and an average combined ratio of 108.3% over the three years to 20th February 2008.

As indicated in previous circulars, gross claims notified in respect of the 2007/08 year have continued to run at levels at or above those experienced in 2006/07 and are now some US$ 45 million above the gross level for that year at the twelve month stage. Eleven claims in 2007/08 are estimated to exceed US$ 1 million, down from 17 such claims in the previous year. Out of those 11 claims, three are estimated to exceed the Pool entry point, including one which is estimated to result in a substantial claim on the Group Excess Loss contract. Net of reinsurance recoveries, the picture is somewhat different. The level of net incurred claims on the 2007/08 policy year is US$ 10.5 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 and, so far, it appears that the Club is facing a somewhat smaller share than in 2006/07, at least by number. However the modest reduction in net incurred claims cannot be regarded as indicating that the increase in the cost of claims over the last two years will continue to abate. The Directors take the view that that is unlikely to occur unless there is an overall decline in shipping activity and an improvement in the chronic shortage of experienced crew. A detailed analysis of claims in the 2007/08 policy year will be included in the Management Highlights which will be published in June.

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Other factors contributing to the result for the year were:

(i) Investments

The combined total return on investments amounted to US$ 26.7 million, or 4.0%, significantly below budget. The overall total of cash and investments increased by US$ 20.2 million to US$ 690.2 million, largely as the result of the final phase of the change in the premium debiting pattern, to debit 100% of Mutual Premium within the policy year, and other cash inflows. The disappointing investment result was largely attributable to the sell off in the equity markets in the first few weeks of 2008, combined with manager underperformance in the bond portfolios. Continued US Dollar weakness contributed 2.7% to the overall combined return.

(ii) 2007/08 Policy Year

The total of projected net claims, including IBNRs, for 2007/08 is very similar to that for the previous year. However the increases in premium and improvements in terms achieved at the last renewal were sufficient to bring the policy year back into balance, with a small pure underwriting surplus, before taking account of administration costs or investment income;

(iii) 2006/07 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 improvement in prior years of US$ 38.6 million. As far as the open years are concerned, the pure underwriting surplus on the 2005/06 policy year has risen to US$ 27.1 million and the deficit on the 2006/07 policy year has fallen to US$ 15.3 million;

2005/06 Policy Year

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

(i) 2005/06 – Class 1 P&I
The Directors resolved that the year should be closed without additional premium;

(ii) 2005/06 – Class 2 FD&D
The Directors resolved that the year should be closed without additional premium.

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.

2008 Renewal

2008 proved to be a satisfactory 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 13.0%, after allowing for adjustments in terms, against the background of the Directors having set a general increase of 15.0%. Given the market environment, the Directors believe that this is a very encouraging response from the membership as a whole.

Combined owned entered tonnage was unchanged at the renewal, with 1.7 million GT of new entries being offset by 1.7 million GT where renewal was not offered or could not be agreed. However, the new entries generated additional premium, net of premiums for fleets not renewed, of US$ 15.7 million. Over the year as a whole owned entered tonnage increased by 3.3 million GT and chartered tonnage by some 2.5 million GT, taking total entered tonnage to 72 million GT, as at 20th February 2008.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION (BERMUDA) LIMITED

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