



STEAMSHIP MUTUAL

To the Members

February 2006

Dear Sirs,

At their Board Meeting in Dubai on 30th/31st January, the Directors reviewed a number of matters including the financial position of the Club and the International Group's reinsurance programme for 2006/07, and they have asked the Managers to bring the Members fully up-to-date with developments prior to the forthcoming renewal.

Financial Update

The Managers are pleased to report that the combined financial position of the Clubs and the Trust has continued to improve. On the basis of the figures reported at the Meeting, the level of surplus reserves is currently projected to rise over the year as a whole by US\$ 12 million, to US\$ 149 million. Among the factors underlying this improvement are the following:

- As at 20th January the combined total return on the Trust and Clubs' investments had risen to just over US\$ 20 million year to date;
- A rise in debited premium resulting from an increase in the volume of new tonnage entered, combined with a lower than expected level of cancellations of existing entries ('churn') due to market conditions experienced in the current policy year;
- Incurred claims for the 2004/05 policy year have remained stable and continue to run at levels below those experienced in 2003/04, both in absolute terms and on a claims per ton basis;
- A US\$ 13 million further improvement in the overall net claims projections for the 2003/04 and prior policy years.

It remains too early to predict with certainty the likely outcome of the 2005/06 policy year. However, since the Mid Year Review was published in November, claims notified have continued to run at higher levels than in 2004/05 and currently stand some US\$ 18 million above the level experienced at the same point last year. Despite these developments the year is currently forecast to result in a third consecutive pure underwriting surplus. The factors underlying these higher levels appear to be:

- a rise in the number of claims in excess of US\$ 1 million per claim, to 12, as compared to 7 at the same stage in each of the two previous years; and
- a further increase in the average value of claims in the attritional layer up to US\$ 200,000 per claim.

The rise in the number of large claims appears, in part, to be accounted for by an increase in claims arising from navigational error, perhaps contributed to by pressure on voyage turn-round times. The higher value of attritional claims seems to have its roots in the rise in commodity prices combined with general cost inflation in the marine industry.

Bearing in mind the threat of rising claims flowing from the continued growth in world trade, the Directors and Managers firmly believe that it is necessary to raise general premium levels moderately, despite the prospects of a satisfactory surplus for the current financial year, in order to ensure that a positive underwriting result is achieved in the 2006/07 policy year.

B.440

International Group Reinsurances - Policy Year 2006/07

Excess Loss Renewal

The renewal of the International Group's Excess Loss Contract has been negotiated with the same limits and excess points as for the expiring year. The Group will continue to retain a 25% coinsurance of the first layer of the contract, from US\$ 50 million to US\$ 550 million each claim. This retention and the top layer of the Pool, from US\$ 30 million to US\$ 50 million each claim, will again be reinsured into the Group captive, Hydra Insurance Co. Ltd. All these elements, together with the premium for the Club excess cover for War Risks (see below) will be consolidated, as they have been for the current year, and the relevant rates are set out below, the average increase being approximately 6.3%:

DIRTY TANKERS	US\$	0.6799	PER G.T.
CLEAN TANKERS	US\$	0.3201	PER G.T.
DRY CARGO VESSELS	US\$	0.2851	PER G.T.
PASSENGER VESSELS	US\$	0.8006	PER G.T.

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 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.

New Certificate of Entry System

The Managers are pleased to announce that the Club will be introducing a new system for generating and delivering Certificates of Entry for the 2006/07 and subsequent policy years. A Certificate will be issued in 'pdf' format and sent to the Member or their broker/representative by email. The Certificate can then be printed locally as required.

The purpose of this new system is both to improve the administration of the Club's policy documentation and to increase the security and integrity of the Certificates of Entry. Each page of the Certificate will be numbered sequentially and will contain the Certificate number and, where appropriate, the version number, plus the Steamship Mutual logo and electronic watermark, and the signature of an authorised signatory. These security features should give, to those to whom a Certificate is produced, confidence that the document accurately and authentically reflects the cover provided by the Club.

In future, when a change is made to the terms of entry or vessel details etc., the Club will issue a new updated certificate rather than an endorsement as at present.

Accordingly, for the 2006/07 and subsequent policy years, the Club will not be issuing hard copy Certificates except by special request. Any Member who wishes to receive hard copy Certificates in addition to or in place of the electronic version should notify the Managers' London Representative.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION (BERMUDA) LIMITED