



STEAMSHIP MUTUAL

To the Members

May 2006

Dear Sirs,

FINANCIAL UPDATE AND 2006 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 Madrid on 8th and 9th 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 2005/06 financial year has proved to be another good year for Steamship Mutual resulting in an overall surplus of over US\$ 20 million and free reserves rising to US\$ 157.4 million. 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 previously, claims notified in respect of the 2005/06 year have continued to run at higher levels than in 2004/05 and now stand at some US\$ 44 million above that year at the same stage, including 13 claims in excess of US\$ 1 million, three of which are currently estimated to exceed the Pool entry point. Net of reinsurance recoveries, the increase over the previous year is reduced to under US\$ 13 million. There is nothing to indicate that this increased incidence of large claims is anything other than random. A detailed analysis of claims in the 2005/06 policy year will be included in the Management Highlights which will be published in June.

Other factors contributing to the positive result for the year were:

(i) Investments

The combined total return on investments amounted to US\$ 24.6 million net of currency adjustments, or 4.6%, a substantial improvement on earlier projections. The overall total of cash and investments increased by 13.4% to US\$ 577.7 million, as the result of the return of the accumulated premiums under the Long Term Reinsurance programme, following its cancellation, and other cash inflows. All the major asset categories made a positive contribution to this result with equities, in particular, outperforming their benchmark. Bonds also outperformed modestly but, in the face of rising short term interest rates, were unable to match their contribution to the previous year. Alternative investments made a significantly improved contribution compared to 2004/05, producing over 20% of the total return. The unexpected strength of the US dollar proved to be the most significant detractor from performance with currency losses reducing returns by US\$ 10.8 million;

(ii) 2005/06 Policy Year

Despite the fact that projected net claims for 2005/06 are some 18.4% above the level for 2004/05, the effect of increases in premium and improvements in terms achieved at the last renewal is that the policy year is nevertheless projected to produce a third consecutive pure underwriting surplus, before taking account of administration costs or investment income;

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(iii) 2004/05 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\$ 16.9 million;

2003/04 Policy Year

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

- (i) 2003/04 – Class 1 P&I
The Directors resolved that the year should be closed without further call;
- (ii) 2003/04 – 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.

2006 Renewal

2006 proved to be a successful, if hard fought, renewal. A weakening freight market and pressure on profitability in the shipping sector increased Members' determination to achieve the best possible rates. Against the background of the Directors having set a general increase of 5.0%, the overall combined increase actually achieved was in the region of 3.0% after allowing for adjustments in terms. The fact that a higher increase did not prove to be achievable also reflects the good and improving records of much of the Clubs' current Membership.

Combined owned entered tonnage increased by 1.6 million GT at the renewal, in addition to the net increase of 1.4 million GT during the policy year, to give an overall net increase of 3.0 million GT year on year. As a result, the owned entered tonnage, as at 20th February 2006, rose to 41.6 million GT which, with the addition of chartered tonnage, brings the total combined entered tonnage to around 62 million GT.

Prospects for the 2006/07 Policy Year

The Steamship Mutual Clubs can look forward to the future with confidence despite the threat of rising claims. The underlying financial position has continued to strengthen and progress has been made in expanding the Clubs' underwriting base on sustainable terms and minimal reliance on investment income.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION (BERMUDA) LIMITED