



**THE STEAMSHIP MUTUAL  
UNDERWRITING ASSOCIATION (BERMUDA) LIMITED**

MANAGERS: STEAMSHIP MUTUAL MANAGEMENT (BERMUDA) LIMITED  
WASHINGTON MALL 1 PO BOX HM 447 HAMILTON HM BX BERMUDA  
TELEPHONE: (441) 295-4502 TELEX: 3411  
TELEFAX: (441) 292-8787

To the Members

December 2002

Dear Sirs,

**Financial Update**

In the 'Management Highlights' published in October we provided a half year update on the financial position. This is further updated below to the end of the third quarter.

**INVESTMENTS**

Since the publication of the Half Year Review, the Club and Trust's investments have benefited from the recovery in the equity and corporate bond markets in October and November, with the result that, for the nine months to the end of November, they have produced a combined return of US\$6.2 million, an improvement of US\$8.4 million on the position reported at 20th August 2002. Whether this rally is sustainable only time will tell.

**CLAIMS DEVELOPMENT**

It remains too early to predict with any certainty the likely outcome of the 2002/03 policy year. The claims development for the first eight months of the year was relatively benign, with neither frequency of routine claims nor the incidence of large claims giving any cause for concern. November proved to be an unusual month, when a number of large claims occurred in quick succession. Experience suggests that this is not likely to be repeated in the remaining months of the policy year and claims development may well revert to a more usual pattern. The gross claims on the 2000 and 2001 policy years have unfortunately continued the pattern of late deterioration noted in the Half Year Review. This claims escalation relates largely to crew claims and third party injury claims mainly of US origin. Fortunately the most recent deterioration in these two policy years has been absorbed by the Club's retention reinsurance and long term aggregate loss reinsurance programmes with the result that there is no increase at the net outstanding claims level. In addition there has been a degree of improvement in the closed years as projections have proved to be cautious.

**RATING REVIEW**

As Members are aware, the additional premiums ordered by the Board in December 2001 resulted in a combined financial year surplus of US\$65.4 million and the combined free reserves rising to US\$148.8 million. In setting the level of additional premiums the Directors took account, amongst other things, of the possibility that the performance of the investment markets might continue to be negative during 2002/03 and beyond and that this could result in the Club's administration costs having to be financed out of reserves. In their Half Year Review the Managers confirmed that this was likely to be the case and that there had been a degree of deterioration in the claims levels of the 2000 and 2001 policy years. As a result of the likely impact of the claims deterioration and lack of investment income on the combined free reserves, A.M. Best have decided to reduce the Club's rating from A (Excellent) to A- (Excellent). However, they have improved their outlook from negative to stable.