



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

MANAGERS: STEAMSHIP MUTUAL MANAGEMENT (BERMUDA) LIMITED
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To the Members

May 2005

Dear Sirs,

FINANCIAL UPDATE AND 2005 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 Venice on 9th and 10th 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 Results

The 2004/05 financial year has proved to be another good year for Steamship Mutual. The combined results of the two Clubs and the Trust benefited from a further reduction in earlier year claims, the continuation of the benign claims trend into the most recent policy year and a better than forecast investment return. Against that background the Directors of the Corporate Trustee decided, at their meeting in Venice, to exercise the option, referred to in their last year's Report and in note 3 (b) to the Trust's 2003/04 Accounts, to terminate the aggregate retention section of their long term reinsurance contract with GE ERC Strategic Reinsurance Ltd (formerly known as the Irish European Reinsurance Company Ltd) during the 2005/06 financial year. The Directors reached this decision in the light of the Clubs' much improved underwriting position and the consequent reduction in the likelihood of any future recoveries under the contract. This, when combined with the potential saving of US\$ 12.0 million p.a. in reinsurance costs, significantly diminished the longer term commercial justification for retaining the contract. The accounting adjustments required to the 2004/05 Accounts as a consequence of the termination of the contract do, however, turn what would otherwise have been a combined surplus for the financial year, of US\$ 32.4 million, into a deficit of US\$ 1.8 million and reduce the combined free reserves, by US\$ 34.2 million, from US\$ 171.6 million to US\$ 137.4 million. Other factors contributing to the results for the year were:

(i) Investments

The combined total return on investments amounted to US\$ 20.7 million, or 4.23%, a substantial improvement on earlier projections. The overall total of cash and investments declined by 5.2% to US\$ 509.3 million as the result of cash outflows. Both bonds and equities provided a positive contribution to this result with bonds, in particular, considerably outperforming their benchmark. Unfortunately alternative investments were unable to replicate the strong performance seen in 2003/04, producing only a very modest return.

(ii) 2004/05 Policy Year

The notified claims for 2004/05 were at the lowest absolute level for over 6 years and projected claims per ton are on a par with those for 2003/04. On this basis, when combined with the substantial increases in premium achieved at the last renewal, the policy year is projected to produce a significant pure underwriting surplus before taking account of administration costs or investment income.

(iii) 2003/04 and earlier Policy Years

Overall the financial year saw a significant reduction in the gross claims exposure for the earlier policy years, but this was more than offset by the reduction in the reinsurance recoveries flowing from the termination of the Long Term Reinsurance Contract with the result that the net claims exposure for 2003/04 and prior years increased by US\$ 18.4 million.