



THE STEAMSHIP MUTUAL
UNDERWRITING ASSOCIATION (BERMUDA) LIMITED

MANAGERS: STEAMSHIP MUTUAL MANAGEMENT (BERMUDA) LIMITED
WASHINGTON MALL 1 PO BOX HM 447 HAMILTON HM BX BERMUDA
TEL: (441) 295 4502 FAX: (441) 292 8787

To the Members

February 2004

Dear Sirs,

FINANCIAL UPDATE

At their meeting in Miami on 26th/27th January 2004 the Directors reviewed the financial position of the Club. They have asked the Managers to bring the Members fully up to date prior to the forthcoming renewal.

The Managers are happy to report that the Club is in a much improved financial position. 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\$30.6m, to US\$119.4m as at 20th February 2004. This is a conservative projection and there is the possibility of further improvement, in the absence of any dramatic fall in the financial markets or unusual increase in claims over the remaining weeks of the policy year. Among the factors underlying this improvement are the following:

- As at 31st December the combined total return on the Club and Trust investments has risen to US\$61.8m, equivalent to a 12.5% return.
- Notified claims for policy year 2003/04 are running at the lowest level for 5 years and projected claims per ton are significantly below policy years 2001/02 and 2002/03.
- An overall improvement in the claims projections for 2002/03 policy year and prior years.

Against this background it would be natural for Members to question whether it is still necessary for the Club to ask for a 20% standard increase. The Directors are convinced that this is the right course to ensure the financial strength and stability of the Club and have taken the following factors into account:

- **Sound underwriting.** The aim is to achieve an overall premium level which greatly reduces dependence upon investment returns in order to balance the policy year. In the interests of sound underwriting and long term financial stability the gap between premium on the one hand and projected claims and administration costs on the other must be reduced.
- **Surplus reserves.** Despite the significant progress made this year in rebuilding the combined Club and Trust reserves, increasing regulatory demands and the need to secure the long term financial stability of the Club make it desirable that further steps be taken at this renewal.
- **Future investment returns.** The Corporate Trustee is confident that it has an investment strategy and a team of advisors which offer good prospects of competitive returns. Nevertheless the possibility of rising interest rates and a still uncertain financial environment are reasons for a business strategy that does not depend on high investment returns for stability.
- **Future claims trends.** Current figures suggest that the Club is benefiting from a relatively benign year in 2003/04. Statistically, this is unlikely to be sustained in 2004/05. Historically a strong freight market has always been accompanied by an increase in claims and a weak dollar will also tend to result in higher dollar value claims. The Club has to take this into account and make appropriate provision.