



THE STEAMSHIP MUTUAL
UNDERWRITING ASSOCIATION 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 (Bermuda) 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.

(iv) Oil Rig Reinsurance Programme

The reinsurers' appeal to the House of Lords, in the proceedings originally brought by the Lloyds Syndicate who were the Association's insurers, has been settled on terms favourable to the Association. In the absence of any adverse developments, it has not been necessary to make any additional financial provisions in the Accounts of the Trust in respect of any of the other outstanding recoveries under this programme.

2002/03 Policy Year

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

- (i) 2002/03 – Class 1 P&I
The Directors resolved that the year should be closed without further call;
- (ii) 2002/03 – 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.

2005 Renewal

2005 proved to be a successful, if hard fought, renewal. A generally good freight market and exceptional corporate profitability in the shipping sector did not lessen Members' determination to achieve the best possible rates. Against the background of the Directors having set a general increase of 12.5% together with an increase in deductibles, the overall combined increase actually achieved was in the region of 7.5% after allowing for adjustments in terms. The fact that a higher increase was not achieved reflects the good and improving records of much of the Clubs' current Membership.

Combined owned entered tonnage increased by 270,000 GT, to which has to be added a small net increase during the policy year, to give an overall net increase of 300,000 GT year on year. Consequently the owned entered tonnage, as at 20th February 2005, was 38.2 million GT which, with the addition of chartered tonnage, brings the total entered tonnage to a little over 55 million GT. The Managers are confident that, taking the renewal overall, the Clubs' risk profile has been further enhanced.

Prospects for the 2005/06 Policy Year

The Steamship Mutual Clubs can look forward to the future with growing confidence. The underlying financial position has continued to strengthen whilst further progress has been made in refining the Clubs' underwriting base and reducing further any reliance on investment income.

Yours faithfully,

THE STEAMSHIP MUTUAL UNDERWRITING
ASSOCIATION LIMITED