

Club: UK P&I
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POLICY YEAR REVIEW AND FINANCIAL YEAR HIGHLIGHTS AT 20TH FEBRUARY 2004

Outline

- No supplementary premiums anticipated on open policy years
- Free reserves increased to US\$219 million, notwithstanding conservative claims reserving.

May, 2004

Ref: 11/04

TO THE MEMBERS

Dear Sirs

POLICY YEAR REVIEW AND FINANCIAL YEAR HIGHLIGHTS AT 20TH FEBRUARY 2004

Review of Open Policy Years

2001 Policy Year

At their meeting in April, 2004 the Directors decided to close the 2001 policy year. No supplementary premium was required.

2002 Policy Year

No supplementary premium is anticipated, and the Board expects to close this policy year in May, 2005.

2003 Policy Year

The final 25 per cent instalment of the mutual premium for the year is due for payment in December 2004. No supplementary premium is anticipated.

Financial Year Highlights

The Directors have approved the Financial Statements for the year ended 20th February 2004.

The Club has achieved a net surplus of US\$40 million after tax. This represents a notable improvement over the net deficit in 2003 of US\$31 million. As a result of this surplus the free reserves have grown to US\$219 million from US\$179 million the previous year, an increase of 22 per cent.

Underlying this much-improved financial performance on the previous year were a strong investment return of US\$129 million (18%) and an increase in premium to US\$305 million.

The investment return was a record for the Club and a strong justification of its investment policy. It is acknowledged that the weakness of the US dollar had contributed to this but noted that it should be remembered that dollar strength had reduced the investment return in past years. Looking ahead, it would be clearly imprudent to assume investment returns continuing at the same level, and the Club is assuming a 5 per cent return per annum in its longer-term financial planning.

The Club also continues to take a cautious approach to the future level of claims. The 2002 policy year was a year of exceptionally heavy claims, for the marine insurance industry generally, with an unusually high number of major casualties. Although claims on the 2003 policy year were not as heavy, the Club remains cautious particularly during a period of dollar weakness and at a time of strong shipping activity.

It was this scenario – a more modest future investment outlook and an upward trend in claims – that had led the Board of the UK Club to order a significant 17.5 per cent general increase in premiums for the current 2004 policy year, despite the fact that the 2003 results were looking positive.

The Club has also seen a steady growth in its tonnage during the year. This was a reflection not just of additions to existing Members' fleets but also of a number of owners entering tonnage with the UK Club for the first time. Gross tonnage of owned ships entered in the Club increased by approximately 5.5 million gross tons during the year, an increase of 6 per cent.

The Club's full financial statements together with the Directors' Report and Review of the Year will be published, as usual, in July. The key financial figures are reproduced in the table below.

2004 Financial Statements - Highlights

All figures US\$ million

Gross Premium Income:	305	Total Funds	952
Reinsurance Premium:		Outstanding Claims	733
(75)		Free Reserve	219
Net Income:	230		
		Ratio	
Total Expenditure	316	Total funds	952
Investment Income:	129	Outstanding claims	733 = 130%
Surplus after tax	40		
		Last year's free reserves:	179
		Plus 2004 surplus:	40
		2003 Free Reserves	219

During the year Standard & Poor's assigned an A rating to the Association. This is the highest rating assigned currently to P&I clubs in the International Group.

There was a further small recovery (US\$5 million) under the Club's reinsurance contract with the Swiss Re in respect of stop loss cover for claims in the 2002 and prior policy years. This resulted from the effect of the weaker US dollar on claims estimates. There was no adjustment to the premium payable to Swiss Re in future years as a result of this claim.

The annual premium is fixed under the contract for each financial year's protection, irrespective of the loss experience on prior years. In accordance with the original decision of the Board, this premium is paid out of the Club's Contingency Account. This account also receives the benefit of the reinsurance

recovery and will bear the impact of any adverse results from the specialist reinsurance subsidiary established in Bermuda in connection with these arrangements. Premium payments do not therefore impact the policy year figures either now or in the future.

Yours faithfully

THOMAS MILLER (BERMUDA) LTD.

Contact

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