

CIRCULAR

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Shipowners Claims Bureau, Inc., Manager
60 Broad Street – 37th Floor
New York, New York 10004 U.S.A.



Tel: 212-847-4500
Fax: 212-847-4599
E-mail: info@american-club.net
Website: www.american-club.com

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TO MEMBERS OF THE ASSOCIATION

Dear Member:

THE AMERICAN CLUB'S RECENT ANNUAL MEETING CLOSING OF THE 1999 POLICY YEAR

The Annual Meeting of the Members of the American Club recently took place in New York. It was a most successful occasion. It afforded an opportunity for Members to meet their management team and to exchange news and views in a highly convivial atmosphere.

The Club's 2002 Annual Report was presented to the Members at the meeting. Its highlights were the subject of a press release, a copy of which is attached for Members' ready reference.

At its own subsequent meeting, your Board of Directors considered the closing of the 1999 policy. The remainder of this Circular addresses this issue specifically.

As Members may recall, 1999 was the first year of a general upswing in claims experienced by most P&I clubs. While investment returns were buoyant at that time, premium ratings across the industry as a whole were at levels inversely proportional to commonly-held expectations that the equity markets in particular would provide subvention funding to underwriting deficits. To some extent such funding did emerge, although not so as to avoid pressure on bottom-line results.

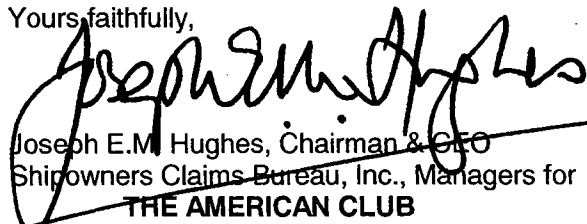
In order to reduce this pressure, your Board decided to levy an additional supplementary call of 20% in excess of the original forecast in October 2001, creating an overshoot of 16% above originally estimated total premium for the year. However, despite this, the year still exhibits a deficit.

Therefore, to close the 1999 policy year, a transfer from the Club's contingency fund has been made in the sum of \$4.495 million. This has been credited to the year at closure, creating a zero balance for the year itself, being overall surplus-neutral for the Club as a whole, but having the concomitant effect of reducing the contingency fund by an equivalent amount.

Nevertheless, bearing in mind that the Club's contingency fund grew by more than \$1 million during the twelve months to December 31, 2002, and remains at a healthy level notwithstanding the transfer, your Board was able to achieve closure well within the guidelines originally established for use of the fund in 1996. Moreover, this transfer from the contingency fund had long been anticipated and has *not* in any way prejudiced the Club's overall financial position and, in particular, its highly creditable results for the 2002 financial year as contained in the Club's Annual Report currently being mailed to Members.

The development of more recent years is described in the Annual Report. A desire for brevity precludes lengthy explanation here – the subject will be dealt with in greater detail later in the year – but overall results remain very much as expected at the present time.

Yours faithfully,


Joseph E.M. Hughes, Chairman & CEO
Shipowners Claims Bureau, Inc., Managers for
THE AMERICAN CLUB

AMERICAN CLUB'S SOLID OPERATING PERFORMANCE

- ◆ Entered tonnage hits a record total of nearly 19m. gt
- ◆ Premium income rises by 28%
- ◆ Operating profit for second consecutive year
- ◆ Club on track for further growth

NEW YORK, June 12: The high-flying American Club was able to report some sparkling results for 2002 at its annual meeting in New York today.

"The future is bright," said Paul Sa (Standard Shipping Inc.), the club's chairman, "and I am certain that the club will continue to enjoy success at the forefront of the global P&I industry over the years to come."

In addition to a further increase in entered tonnage, taking the club to a total of nearly 19m. gross tons, it also achieved a post-tax operating profit of \$3.2m. despite difficult trading conditions. It was the second successive year to show an operating surplus, bucking an almost universal trend seen elsewhere in the market of year-on-year losses.

The New York-based mutual once again saw its premium income rise – to \$53.3m. from \$41.5m – an uplift of 28%. Total assets grew by 15% (to \$119.2m.), while free reserves rose by an identical margin of 15% to \$20.3m.

Although claims incurred rose by just under \$8m., reflecting substantial tonnage growth over the period, paid claims actually reduced by 15% due to the stabilisation of claims costs during the preceding 12 months.

Another feature of the year was further diversification of vessel type and domicile of management. Non-US members now account for nearly 80% of the total, widely spread around the world.

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Mr Sa told the meeting that the year 2002 began with a significant increase in entered tonnage, and steady growth and financial progress continued through the year. The 2003 renewal in February brought new highs in entered tonnage and premium revenue, "and the club is well positioned for strong growth in the future."

Endorsing these remarks, Joe Hughes, chairman and ceo of Shipowners Claims Bureau Inc., the managers, said that progress was made in every area of the club's activities – operationally, financially and, most importantly, in the continuing development of service capabilities.

Further, "2003 has started well entered tonnage stands yet again at a record level and the club's chief financial indicators continue to move ahead, outperforming industry trends in most areas."

Sounding a note of caution, however, Mr Hughes said it was unlikely that trading conditions for marine insurers in general and for P&I clubs in particular would dramatically improve in the short to medium term, especially in view of current geopolitical uncertainties which would continue to affect the business climate at large.

At today's meeting, Mr Chih Chien Hsu (Eddie Steamship Company Ltd., Taipei) was welcomed as a new member of the board, the club's first director from Asia. **-ends-**

Issued by:

Denzil Stuart Associates, 67 George Row, London SE16 4UH
Tel: +44 (0)20 7231 9963
Fax: +44 (0)20 7232 1738
Email: ds@dsa-pr.com