THE AMERICAN CLUB 2002 ANNUAL REPORT

The American Club

Peaceful Harbor
Jane Wooster Scott
(Contemporary American)

Jane Wooster Scott

HIGHLIGHTS

- *2002 begins with another excellent renewal season – Club grows to record volume of entered tonnage.*
- *Premium levels move markedly upward after protracted period of weak pricing.*
- *Expansion and diversification continue – size and spread of entered tonnage continues to develop during the year.*
- *1998 closed without further contribution in excess of original forecast. 1999 slated for closure in June 2003 within current budget.*
- *2003 renewal features further growth – Club experiences new highs in entered tonnage and premium income.*
- *Rebound in investor confidence proves elusive. 2002 closes with multi-year stock market decline not seen since early 1930s.*
- *Despite difficult conditions, Club finances maintain progress into positive territory.*
- *Continuing expansion of resources in London extends outreach to business partners in Europe and beyond.*
- *Overall P&I market tone matches expectations. Despite geopolitical uncertainties, ongoing Club success points to excellent prospects for the future.*

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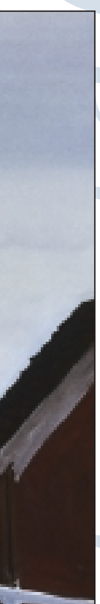
Portland Head Light And Captain Strout's House
Edward Hopper (1882 – 1967)

2002 was a successful year for the American Club. The year began with a significant increase in entered tonnage. The months which followed featured steady growth and continuing financial progress. Although negative conditions in the securities markets created a drag on investment returns, rating levels rose respectably after a protracted period of weak pricing. The 2003 renewal saw the Club experiencing new highs in entered tonnage and premium income. As always, the American Club looks forward with its customary enthusiasm to a bright future committed to the highest standards of Member service and financial integrity.



The Board of Directors and Managers of American Steamship Owners Mutual Protection and Indemnity Association, Inc. (the American Club) are pleased to present the Club's Annual Report and Accounts for the year ended December 31, 2002.

The Club's annual meeting took place in New York City on June 20, 2002. At that meeting, the Directors listed on page 39 were elected to serve for the ensuing twelve-month period, Mr. Robert A. Agresti of P&O Nedlloyd Limited, Mr. Lawrence J. Bowles of Nourse & Bowles, LLP, Mr. Kenneth T. Engstrom of International Shipping Partners, Inc. and Mr. Steven T. Scalzo of Foss Maritime Company being then elected as new members of the Board. Their fellow Directors welcomed them most warmly to their ranks knowing that they would make a valuable contribution to the Club's affairs over the years to come.

It was with regret that, in February 2002, the Board received the resignation of Mr. Bruce D. Benn of Alaska Tanker Company, LLC following the withdrawal of that company's tonnage from the Club with effect from February 20, 2002. At the annual meeting Mr. Richard H. Brown, Jr. retired as General Counsel to the Club and was replaced in this capacity by Mr. Lawrence J. Bowles of Nourse & Bowles, LLP. It was also with regret that the Club received the resignation of Messrs. Richard F. Gronda and Vitaliy Lyutyy at the annual meeting. The Board thanks both gentlemen for their service to the Club – in the case of Mr. Gronda, indeed, over many years which included service as Deputy Chairman. The retirement of each represents a loss to the shipping industry in general and to the Club in particular.

A special word of appreciation is due to Dick Brown. His sterling service to the Club over many years as General Counsel was of great importance to its affairs during its recent expansion and, in particular, in the mid-1990s when the Club was seeking full membership of the International Group Pool. The Directors are therefore pleased to report that Mr. Brown has agreed to continue his association with the Club as a special advisor. His involvement will be of exceptional value to the continuing promotion of the Club's interests given his unsurpassed knowledge of the issues and events which attended its progress during a most important period of its history.

At the same meeting, Mr. Paul Sa of Standard Shipping, Inc. was re-elected as Chairman. Mr. James P. Sweeney of Penn Maritime, Inc. was re-elected as Deputy Chairman. As mentioned above, Mr. Lawrence J. Bowles was appointed General Counsel to the Club and Mr. Joseph E.M. Hughes, the Chairman and CEO of the Managers, was reappointed Secretary.

In addition to their participation in the annual meeting, the Directors convened on five occasions during the year. Four meetings took place in New York but, in November 2002, the Board chose San Diego as the venue for its customary 'out-of-town' session. As usual, the Directors and Managers were pleased to welcome many Members and other friends of the Club at a reception held in conjunction with the meeting itself. Everyone present thoroughly enjoyed the occasion and, as a singular boon, the benefits of southern Californian early winter sunshine!

In the course of the meetings which took place in 2002, the Directors considered a wide range of matters including, among others:

- *Election of Directors*
- *Policy year accounts and supplementary calls*
- *Settlement of claims of the Club's Members*
- *Settlement of International Group of P&I Clubs' pool claims*
- *Setting of premium levels for the subsequent policy year*
- *Reinsurance*
- *Meetings of Managers of the International Group of P&I Clubs*
- *Changes to the Club's By-Laws and Rules*
- *Investment policy*
- *Developments in international shipping regulations*
- *Outcome of renewal negotiations*
- *Budgeting policy for relevant policy years*
- *Reports of the business of the Club's liaison office in London*
- *Progress of the Club's successor strategy to Vision 2000*
- *Development of new marketing publications for the Club*
- *The new format and contents for the Club's newsletter – Currents*

During the year the Club continued to benefit from meetings of the Finance and Safety and Environmental Protection Committees. Under the auspices of the latter, the format and contents of the Club's in-house newsletter – renamed simply *Currents* – was undertaken. It was felt that, in conjunction with the many changes which had taken place at the Club over the recent past, the form of the newsletter should be recast both by expanding its content and by improving its presentation.

The Club started 2002 on a high note gaining new Members from a variety of sources and placing total entered tonnage at some 13.5 million gross tons. As has been a consistent trend in recent years, a significant proportion of this tonnage came from foreign operators. This served further to increase the Club's balance of entries in the non-US sector. However, the Directors are pleased to report that – in absolute terms – the US entry continued to grow during 2002, although the proportion of total tonnage entered from US sources has been overtaken in recent years by entries from overseas.

The organic development of tonnage entered by existing Members during 2002 – particularly in the second half – grew somewhat more abundantly than had been the case during the preceding twelve months. This, coupled with an excellent renewal season, meant that, as of February 20, 2003, total entries stood comfortably in excess of 17.5 million gross tons, the highest ever for the Club. This continuing growth reflects market recognition of the benefits associated with membership of the American Club.

Chen Lain Xing

The Village On The Canal
Chen Lain Xing (1957 –)

Noah's Ark
Edward Hicks (1780 – 1849)

During the year the Club remained subject to the regulatory control of the New York State Insurance Department. The submission of quarterly and annual statutory returns continued. On the financial front in general, the erosion of asset values created by poor economic circumstances in the developed world as a whole continued during the year and, as it closed, was further exacerbated by geopolitical uncertainties. Nevertheless, despite these pressures – and in light of enhanced cash flow generated by new premium growth and by supplementary calls collected in respect of the 1999, 2000 and 2001 policy years – an overall investment return of just under 2% was achieved.

During 2002, the 1998 policy year was closed without call in excess of the original forecast. The small surplus then remaining on the year was transferred to the Club's contingency fund.

Later in the year, however, the decline in income from investments, linked to a need to place premium rating in better balance overall following several years of market softness, caused the Board to order, for the 2003 policy year, a general increase in estimated total premium for P&I entries of 25%. This was mandated in conjunction with a reduction of the supplementary call proportion of estimated total premium from 40% to 20%. This will have the effect of further enhancing cash flow to the Club during 2003. It is intended that, probably for the 2004 policy year, the Club will move to the practice of collecting its entire estimated total premium requirement during the currency of the policy year itself with a view to introducing, as a matter of

mathematical reciprocity, a zero supplementary call estimate for future years.

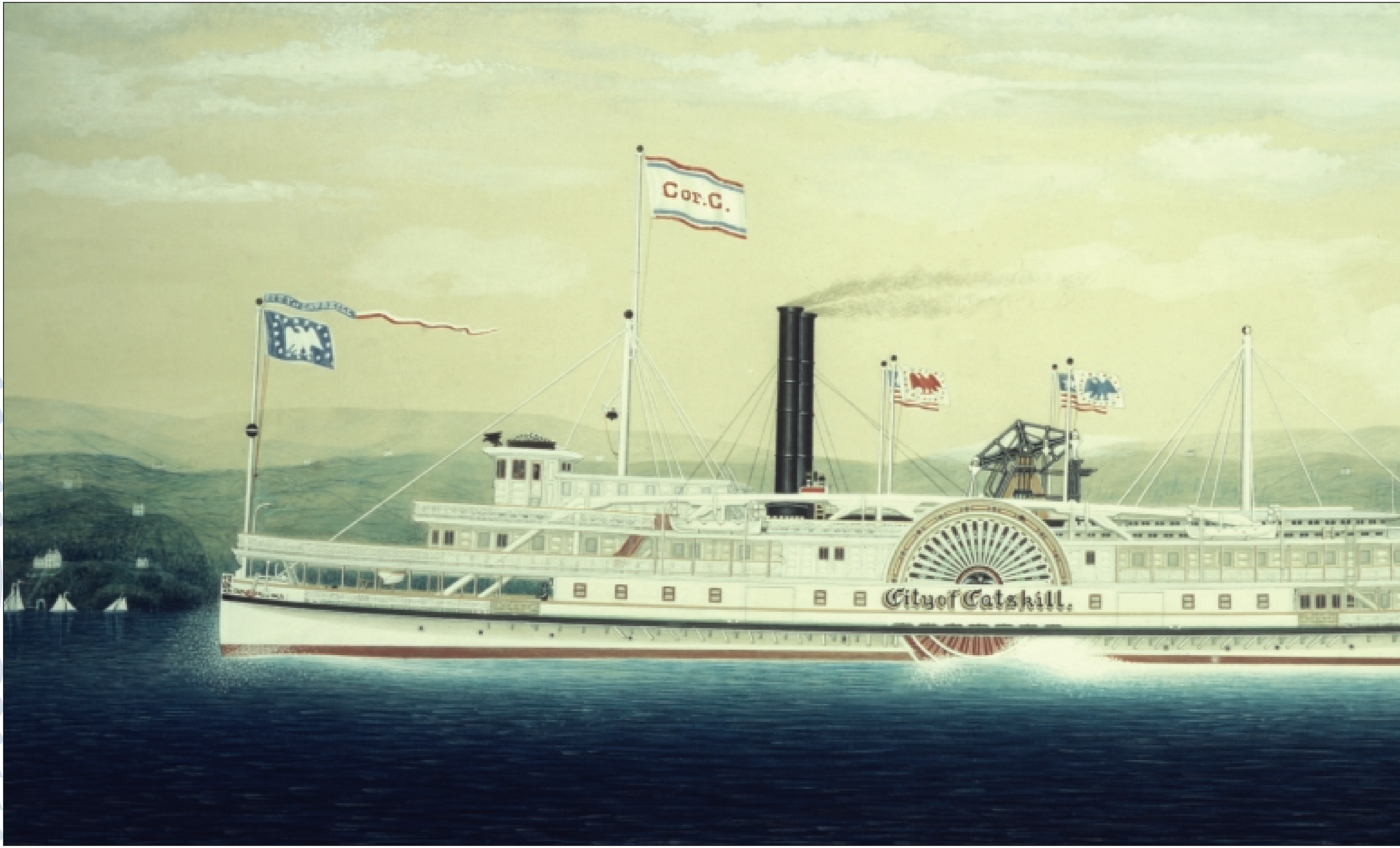
By and large, the Club was successful in collecting the increases it required on renewing business and, taking into account the substantial amount of new tonnage which entered as of February 20, 2003, an overall rise in projected total premium of more than a third has been achieved. This augurs well for the future.

The Club's office in London – originally opened at the end of 1998 – continued to be a source of strength. The additional space acquired during the previous year proved its worth in responding to accommodation needs given growing customer demand and further staff were recruited to support the Club's expanding service base. This trend is likely to continue into 2003 as the growth of the Club's tonnage – particularly in the eastern hemisphere –maintains robust development. The Club is committed to building on its representation in London – an important crossroads of the P&I world – and is confident that its office there will continue to add significantly to the Club's capabilities over the years to come.

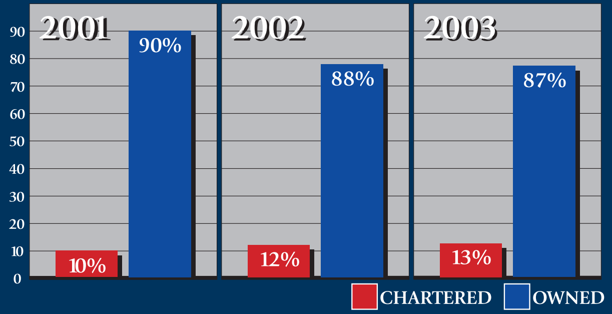
2002 was a good year for the American Club, despite the many challenges which faced both the insurance industry in general and the P&I market in particular. The improving market trends referred to in last year's Report of the Directors remained broadly on track.

Moreover, the hardening of premium rates, the Club's success in expanding its portfolio once again at the

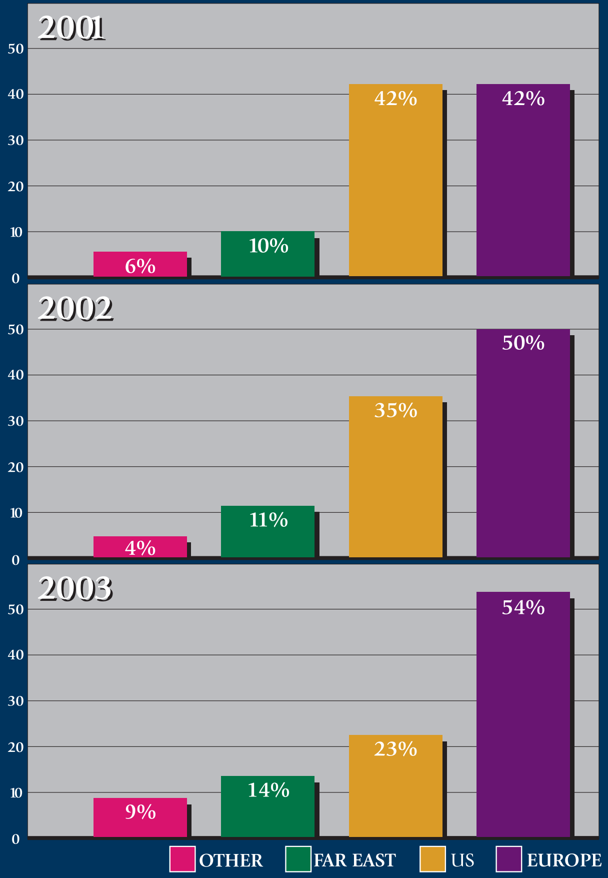
City Of Catskill
James Bard (1815 – 1897)



SPLIT BETWEEN OWNED AND CHARTERED ENTRIES



OWNED AND CHARTERED TONNAGE BY MANAGEMENT DOMICILE



most recent renewal and the fact that investment income expanded rather than contracted over the period under review continue to suggest a positive outlook.

Last year, it was suggested that 2001 might come to be seen as representing the lowest point of the recent underwriting and investment cycle. The cautious optimism expressed twelve months ago that 2002, and the years which lie ahead, would witness further improvement in the American Club's prospects, as well as those of the industry at large, appear, as circumstances currently stand, to have been justified.

As in previous years, the Directors take this opportunity of thanking Members for their continuing support of the Club. Thanks are also due to the many others who worked hard in 2002 to progress its aims. Despite the uncertainties in many areas – both economic and political – which prevailed during the year, it is nonetheless possible to say that 2002 saw the further successful development of the Club's long-term goals. The results of the most recent renewal – as well as the many other initiatives currently underway – bear witness to the exciting prospects which the new year holds for the Club, as well as for its many friends at home and abroad.

Walter Kuhn

At The Beach
Walter Kuhn (1877 – 1949)

2002 saw the further growth and diversification of the American Club. Previous years' trends continued during the period. The year began with an outstanding renewal season and saw steady progress over the months which followed.

As of February 20, 2002, the Club achieved a net gain in entered tonnage of approximately 1.8 million gross tons – a figure somewhat larger than that of additional tonnage which came on risk twelve months earlier.

As before, much of this tonnage was insured on behalf of owners from overseas and served to continue the Club's diversification by nationality of management and vessel type. The trend developed further during the year which, as was the case over previous insurance periods, saw growth in entries for Freight, Demurrage and Defense risks as well as those in regard to charterers' liabilities.

The difficult trading conditions described in last year's Annual Report continued into 2002. This was especially the case in the financial sector where, by year-end, US equity markets had experienced a series of annual declines not seen since the early 1930s. Overall, the period witnessed the continuation of an environment – referred to twelve months earlier – thoroughly inimical to the generation of surplus among underwriters.

Most insurance suppliers were detrimentally affected by these negative trends, and the free reserve levels of all clubs continued to show erosion. However,

despite a difficult background, the American Club's position was not as adversely affected as might otherwise have been the case. This was due in large part to significant increases in premium volume over the year, a stabilization of claims results during the period and an improvement in investment performance which, although hardly stellar, was nevertheless better than the previous year.

Entered Tonnage, Underwriting and Reinsurance

2002 featured growth in the Club's entered tonnage. Having enjoyed a successful renewal, entries continued to increase during 2002 so that, at year-end, total entries stood at some 13.5 million gross tons compared with approximately 10.3 million twelve months earlier.

Most of this growth was attributable to new business entered on behalf of both owners and charterers. As will be seen from the table on page 11, the split between these two categories of entry continues to remain broadly constant year-on-year. As will also be seen from the comparative figures on page 11, the period under review also showed growth in the number of foreign flag operators, but at a more moderate pace than that which characterized the early stages of the Club's international outreach during the mid to late-1990s.

For the 2002 renewal, the Directors ordered that a general increase of 12.5% be applied to expiring P&I advance call rates. In addition, it was decided that the estimated supplementary call proportion of total premium be increased from 25% to 40%. Taken together, the increases in the advance call and supplementary forecast for 2002 represented a 26% increase in estimated total premium year-on-year.

Fixed premium rates for charterers' cover were also made subject to the 26% general increase applicable to estimated total premium for mutual entries. For Freight, Demurrage and Defense, it was determined that advance call rates remain as expiry, but that the supplementary forecast be increased from 25% to 40% in line with the P&I class, connoting an uplift of 12% in estimated total premium and, mutatis mutandis, in fixed premium charterers' rates as well.

Overall, and taking into account adjustments to individual Members' rating referable to record, the Club was broadly successful in obtaining the prescribed general increases. Indeed, inclusive of new business, premium income for 2002 was over 50% higher than that earned in 2001.

As to the most recent renewal, in November 2002 the Directors ordered that a general increase of 25% be applied to expiring P&I estimated total premium for tonnage renewing as of February 20, 2003. In addition, it was decided that the estimated supplementary call proportion of total premium be reduced from 40% to 20%. Fixed premium rates for charterers' cover were also made subject to the same 25% general increase applicable to estimated total premium for mutual entries.

For Freight, Demurrage and Defense cover, it was determined that advance call rates remain as expiry, but that premium for this class of business be taken as estimated total premium for the year rather than by way of advance and supplementary calls.

All the general increases referred to above were also made subject to adjustment by reference to any increase in the renewal cost of the International Group of P&I Clubs' general excess of loss reinsurance contract, then being negotiated on the Group's behalf by its brokers in the Lloyd's and other markets.

The most recent renewal saw growth in new entries resulting in total entered tonnage rising to over 17.5 million gross tons as of February 20, 2003 – a record figure. Reflecting a trend of several years, many new entries came from overseas. As a result, the tonnage of operators from foreign domiciles continues to exceed that of those managed from within the United States. As to the balance of vessel types covered by the American Club, it will be seen from the table on page 17 that the dry bulk and general cargo sectors continue to account, in tonnage terms, for the largest part of the entry in the Club as a whole.

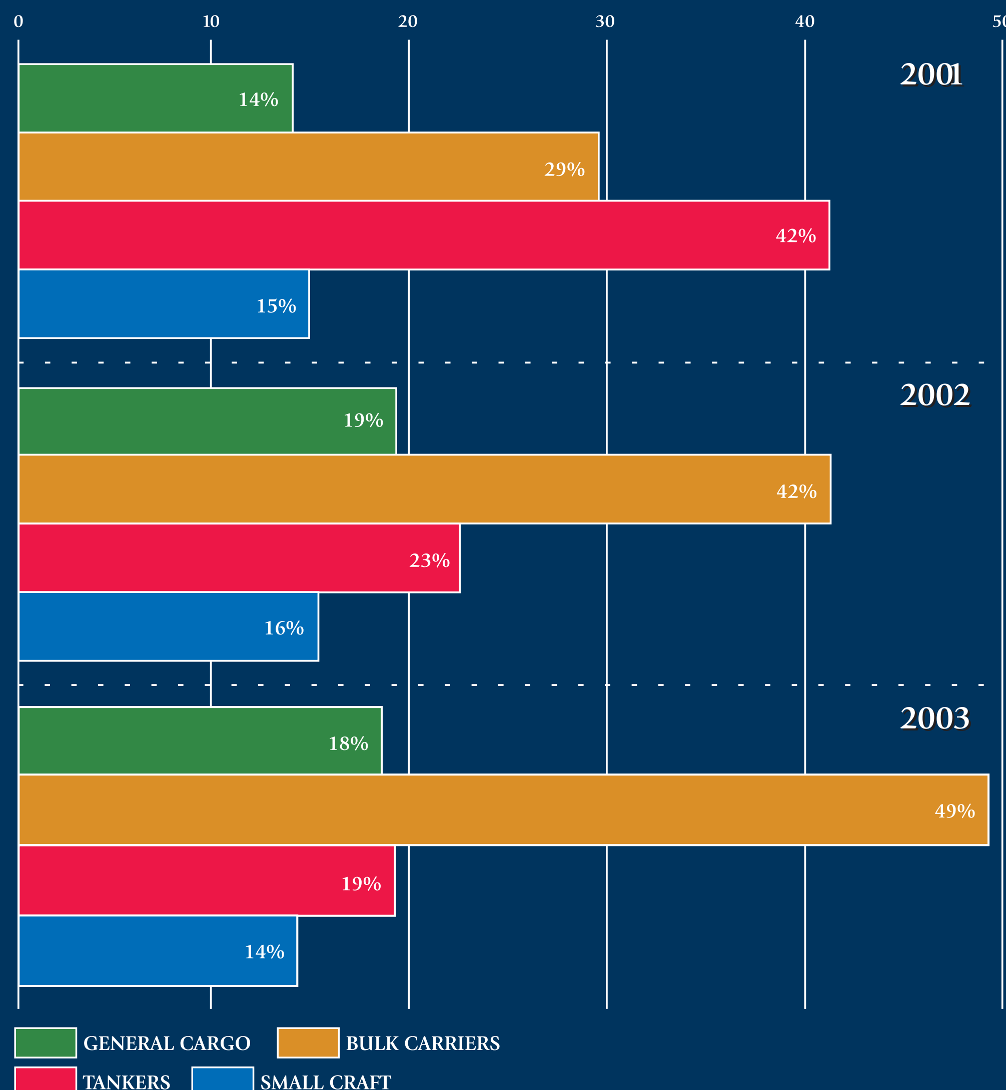
Rising Tide
Joseph Jeffers Dodge (1917 –1997)

Windmill On The Landscape
V. Hutten
(Contemporary American)

However, notwithstanding the growth of non-US tonnage over recent years, it is nonetheless gratifying to note that the commitment of domestic operators to the American Club continues to grow. This was particularly true of the latest renewal period at which time significant US-based operators joined the Club as new Members. The overall increase in this sector – in absolute terms – continues to characterize Club development as a whole.

The latest accounts indicate that the Club's underlying finances improved during 2002 despite severe pressure placed on all insurance carriers by the continuingly parlous state of the investment markets. It will be recalled that, twelve months ago, the Club described the prospect of an upturn in the investment sector during the second half of 2002 as being a source for optimism for the then upcoming policy year. However, and as is well known, this never materialized and was certainly not assisted by geopolitical uncertainties which began to manifest themselves from the fall of 2002 onward. It is to be hoped that, at the time of writing, a swift and relatively painless resolution to the conflict in Iraq will be achieved to cool the fevers of current global politics and return stability to the world financial markets.

OWNED AND CHARTERED TONNAGE BY VESSEL TYPE



(Figures as of March 1 in each year)

The Club's reinsurance arrangements during the period under review remained essentially unchanged from those which obtained during 2001. The reinsurance of claims in excess of $5 million per incident, in respect of which the Club participates with other members of the International Group, retained the same structure as that which applied during the previous year, 2002 being the last year of a three-year contract originally negotiated at the commencement of the 2000 policy year.

However, for 2003, although the structure remains broadly the same – as do the different layers of cover for both oil pollution and non-oil pollution risks – the Group's reinsurance rates have risen overall by just under 40%. Given the universal hardening of the world reinsurance markets over the past 18 months, this was a reasonably benign result. A schematic of the International Group's arrangements is set out on page 18. The main structural change relates to the increased level of Group coinsurance within the first market excess layer.

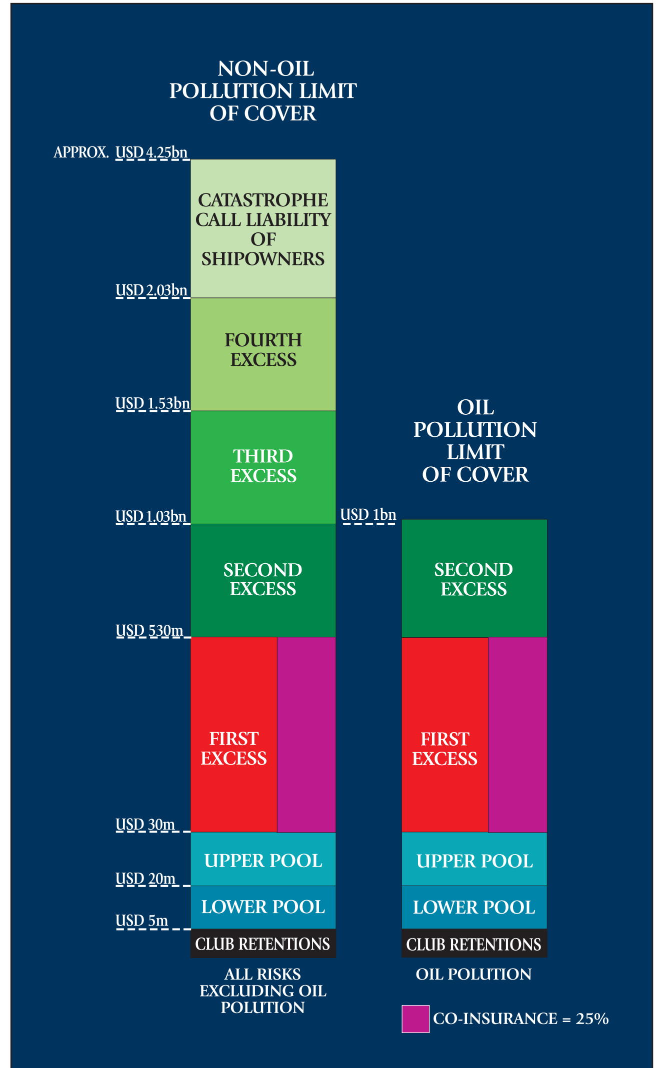
2002 also saw the American Club continuing to protect its underlying retention. Three tranches of cover were purchased, bringing down the threshold of reinsurance absorption to an excess point of $500,000, but subject to a series of annual aggregate deductibles within the relevant layers.

For 2003, despite the universal hardening of the reinsurance markets, the Club has been successful in obtaining renewal of its underlying protection of loss exposure within its retention for claims of $3 million in excess of $2 million per incident on essentially the same terms as those which applied during the previous year.

As before, Munich Re leads the placing, taking 75% of the order, supported by the BRM Syndicate at Lloyd's (previously CGNU) with the remaining 25%. In committing to this placement, reinsurers continue to demonstrate their solidarity with the Club through the maintenance of their participation at reasonable cost. This, in turn, is an indication of their confidence in the Club's current circumstances and future prospects.

As mentioned last year, war risks – and, in particular, cover for acts of terrorism – continued to exert a major influence on the reinsurance needs of the International Group of P&I Clubs. The insurance environment was complicated by the enactment, at the end of November 2002, of the United States Terrorism Risk Insurance Act (TRIA). Although the applicability of TRIA to the marine insurance markets was an unintended consequence of the legislation – being primarily aimed at property and casualty providers – the Group was nonetheless obligated to respond to TRIA's imperatives requiring its member clubs to offer cover for terrorism

SCHEMATIC OF INTERNATIONAL GROUP REINSURANCE COVER 2003/2004



risks as mandated by the new statute in very short order following its entry into force.

As Members will recall, this necessitated Group clubs making emergency arrangements offering cover under TRIA in accordance with their own individual assessments of premium cost by reference to relevant tonnage and trading profiles, based on an absence of reinsurance for claims arising under such cover. In the result, and notwithstanding the offers made pursuant to TRIA, there were no acceptances of the new conditions. Accordingly, the status quo in respect of the sharing of war and terrorism risks as between the traditional marine markets was maintained.

The position in respect of war and terrorism risks has somewhat changed for 2003. While individual owners are expected to maintain war and terrorism risk cover up to the proper value of an insured vessel, International Group insurance for P&I liabilities now provides protection for $400 million per claim in excess of that proper value. This includes cover under TRIA, the final regulations in respect of which remain to be published and are subject to International Group comment at the time of writing. In order to keep Members abreast of a rapidly changing environment generated by the enactment of TRIA, a series of Circulars was issued in response to developments as they unfolded toward the end of 2002 and early into 2003.

The Gulls And Day At The Beach
Anna Belle Lee Washington (1924 – 2000)

At the annual meeting in June 2002 it was resolved to close the 1998 policy year without further call in excess of that originally forecast for the year. It is also expected that, as of June 12, 2003, the 1999 policy year will formally be closed, again without call in excess of those previously levied and in accordance with the Club's latest forecast for the year.

So far as the 2000 year is concerned, the Club's global exposures for the period have been attended by negative results in every respect. First, there was an increase in claims attributable not only to the Club's growth in tonnage over recent years, but also referable to experience generally in the market where, for example, 2000 in its earliest stages developed as the worst period for claims in the International Group's Pool for several years. Although the American Club continues to have the best pooling record of any club, contributions to other clubs' losses entailed a significant increase in its own costs in this area.

Second, 2000 was a period which, in conjunction with the foregoing, continued to feature the persistent lack of pricing power which had characterized the P&I market at large for several years.

A.B.L. Washington


J. Trotter

Last, but by no means least, the year also exhibited an unrelentingly downward trend in investment returns and asset values which – in common with all clubs – also had an unwelcome impact on overall financial performance. Nevertheless, despite these factors, it is expected that 2000 will eventually be closed without further call in excess of latest forecasts. The same is true of 2001, although – as mentioned twelve months ago – it appears to be developing in a more favorable manner than 2000, particularly in light of the growth of entered tonnage recorded during the February renewal of that year and subsequently as it progressed.

So far as 2002 is concerned, the first six months of the year were developing exceptionally well with a loss emergence much better than that which had attended the progress of the previous two years. However, some deterioration overtook early prospects during the last quarter and, although it is still expected that the year will ultimately develop in surplus, the final figures – absent a substantial increase in investment earnings – are not likely to be as good as those which had been indicated only six months ago. However – and to reiterate – it is still encouraging to note that, despite general market trends to the contrary, the year is nonetheless projected to end in surplus rather than – as so often the case elsewhere in the market – emerge as another year of relentless decline in underwriting performance.

Claims

The pattern of the Club's retained claims in recent times has largely followed the pattern of the development of its entered tonnage in terms of claims volume, frequency, type and profile of payment.

Accordingly, tonnage increases have brought a concomitant growth in overall exposure – the early performance of the 2002 policy year being a notable exception – while the diversification of the Club's entry by reference to flag, domicile of management and vessel type has entailed an uplift in claims frequency and an incidence of swifter settlement. These trends have been in sharp contrast to patterns established when the Club's US tonnage was much greater as a proportion of the whole than it is at present.

However, and as noted extensively in the past, individual cases within the non-US sector of the Club's overall entry are almost always less expensive than their US-generated counterparts. As has traditionally been the case, the Club typically adopts a highly cautious posture in its initial reserving of claims. Much of this derives from the requirements of New York State Insurance Department whose regulations mandate actuarial certification of projected annual loss results.

These actuarial prognoses tend to be more conservative, in their early stages, than the figures which ultimately emerge as the experience of individual years' progresses to maturity. As noted in predecessor annual reports, this usually militates, over time, toward the reduction of projected claims costs for policy years as they approach closure.

Finance and Investments

Last year the decline in equity values during 2001 was described as being the worst since the 1973/1974 period following the first oil shock. Many financial commentators asked whether things could get worse. Most were inclined to the view that things could only get better.

In the result, December 31, 2002 brought with it the end of a three-year period of successive annual stock market declines, a phenomenon not seen since 1932, a year typically viewed as that which marked the end of the beginning of the Great Depression.

During 2002, the Dow Jones Industrial Average declined by 16.8%, the Standard & Poor's 500 fell 23.4%, the NASDAQ lost 31.5% and the Standard & Poor's Europe 350 (in US dollar terms) lost 19.7%. As of mid-February 2003, each of these indices has been in further decline.

However, the bright spot during the year was an increase in the US bond index of 0.4% and, for 2003 to date, an uptick of no less than 10%.

In the course of the year, despite market gyrations which were sometimes interpreted as holding the promise that equities would improve, the Club steadily reduced its stock market holdings and placed a growing proportion of its total portfolio into cash and fixed-income securities. Accordingly, by the end of the year, the equity proportion of the Club's invested assets had reduced to 18% in comparison with a figure of 27% which had been the case at the end of the previous year.

It is part of the Finance Committee's remit to ensure that appropriate oversight of the management of Club investments is maintained. As a matter of general direction, and taking the advice of the Club's investment advisors, the Club's policy is to maintain, over time, a balance of approximately 30% of total assets in equities and the remaining 70% in fixed-interest securities and cash. The weighting as between these sectors clearly responds to market conditions. Accordingly, the steps taken during the course of 2002 to under-weight equities was essentially in fulfillment of this policy.

At the time of writing, there is debate as to the likely future performance of the equity and bond markets respectively over the remainder of 2003. Many hold concerns that an increase in interest rates might create a countervailing reduction in bond prices, while some market commentators believe that equity investments may prove more attractive over time, particularly if there is a quick resolution to events in the Middle East.

Rule Changes

Over the past several years, various Rule changes have been implemented, deriving from the Board's continuing review of the language of the existing Rules and the desire to maintain "good housekeeping" aimed at extending the clarity and efficacy of the terms under which Members are insured by the Club.

As foreshadowed in last year's annual report, a full review of the Rules was undertaken by the Managers during 2002. This was intended to up-date their content in certain material respects as well as making them more user-friendly.

Following an extensive analysis of best practice across the market at large, and a broad consultative process internally, new Rules were adopted by the Board in November 2002 and took effect as of

Winslow Homer

February 20, 2003. The revision was not intended to implement wholesale changes in the substance of Club cover, but rather to make the general part of the Rules more comprehensive in application and more focused in meaning.

The salient characteristics of the changes have been to divide the overall cover into three Classes of insurance (being Classes I, II and III, covering Protection & Indemnity insurance, Freight, Demurrage and Defense insurance and insurance for Charterers' Risks respectively).

No amendments have been made to the substance of Rule 2 of the P&I Class (Class I) dealing with risks and losses covered. This Rule has undergone the most change in recent years. Moreover, the innovations being implemented to the Club's IT systems were considered to make it imprudent to effect amendments to the organization of Rule 2 since this could confuse references to Rules and other terms and conditions of cover in future certificates of entry and endorsements. Accordingly, other than for modifications necessitated by changes in International Group practice, the essential wording and format of Rule 2 of the new Class I (P&I) Rules were maintained for the 2003 policy year.

Beach At Nerja
Dale Kennington (1935 –)

The most important textual and structural changes were made to the terms of Rule 1 – General Insurance Provisions, Rule 3 – Losses and Risks Excluded and Rule 4 – Club Funding etc. Looking ahead, there will be further review of Rule 2 over the forthcoming months in good time for the 2004 renewal.

As to the By-Laws, some relatively minor changes are intended for implementation soon and will be submitted to the annual meeting in June 2003. The purpose of these changes is to give the Club greater flexibility in the manner in which it conducts its business – particularly in regard to the frequency of Board meetings and their location.

The American Club's Strategic Plan

As reported last year, the Club's annual meeting in June 2001 saw the Managers present a successor strategy to its Vision 2000 plan. This was based on an analysis of the Club's circumstances at that time and set goals in a number of areas, making assumptions as to the developments which were likely to take place in the market over the forthcoming five-year period.

It is pleasing to note that several of the goals set out in the most recent strategic plan have been achieved significantly in advance of original expectations. This is particularly so in regard to entered tonnage and general levels of rating which are now firmly on track to ensure the continuing robustness of the Club's financial performance over the years to come.

The plan remains under constant review by the Managers who make regular reports to the Board both as to recent developments and as to its longer-term implementation. The success of the strategic plan has given the Club the opportunity of consolidating the gains made in recent years as well as extending its capabilities going forward.

As mentioned in previous annual reports, the consolidation of gains is an important feature of the plan since Members must be confident – as, indeed, they can be – that the Club's commitment to excellence remains uncompromised and that there is a review process internally to ensure that standards and progress are being monitored. It is to be hoped that the greater stability which was thought last year to be asserting itself in the market at large will come to be a real feature not only of the American Club's experience, but also of that of the industry as a whole.

What can be certain, however, is that the American Club has a clear plan and purpose aimed to maximize opportunities to its Members' benefit through the articulation of a clear vision of the future.

Portrait Of A Naval Officer
William Charles Anthony Frerichs (1829 – 1905)

W.C.A. Frerichs

Club Publications

In addition to the revision of the Rules mentioned above, as well as the new format and content adopted for the Club's newsletter, *Currents*, a new brochure was commissioned during the period under review and widely distributed within the membership, among the insurance and shipping communities and to the many other friends of the Club throughout the world.

It is hoped that the new format for the brochure – a revised edition of which had not been published for some years – will prove to be both eye-catching and instructive! The document is intended to convey the Club's message in brief and trenchant language while, at the same time, providing a practical portfolio for the dissemination of related documents such as annual reports, newsletters and market presentations such as might be of interest to both existing and potential members.

The Future

Once again, and in spite of difficult conditions, the Club enjoyed a successful year. It began well and saw further progress as it unfolded. As a continuation of the Club's strategy of growth and diversification – a strategy still less than a decade old – 2002 was another year in which the Club moved yet further forward. In allowing itself pause for retrospection, the Club thanks all those who have supported its aims and lent impetus to the fulfillment of its ambitions both during 2002 and over the years which preceded it.

As often noted in the past, the American Club has undergone great change in recent times. But none of this has been change for change's sake. Most especially, the Club has never lost sight of its core values and the need to foster the best traditions of its past as the bedrock upon which to build a dynamic future.

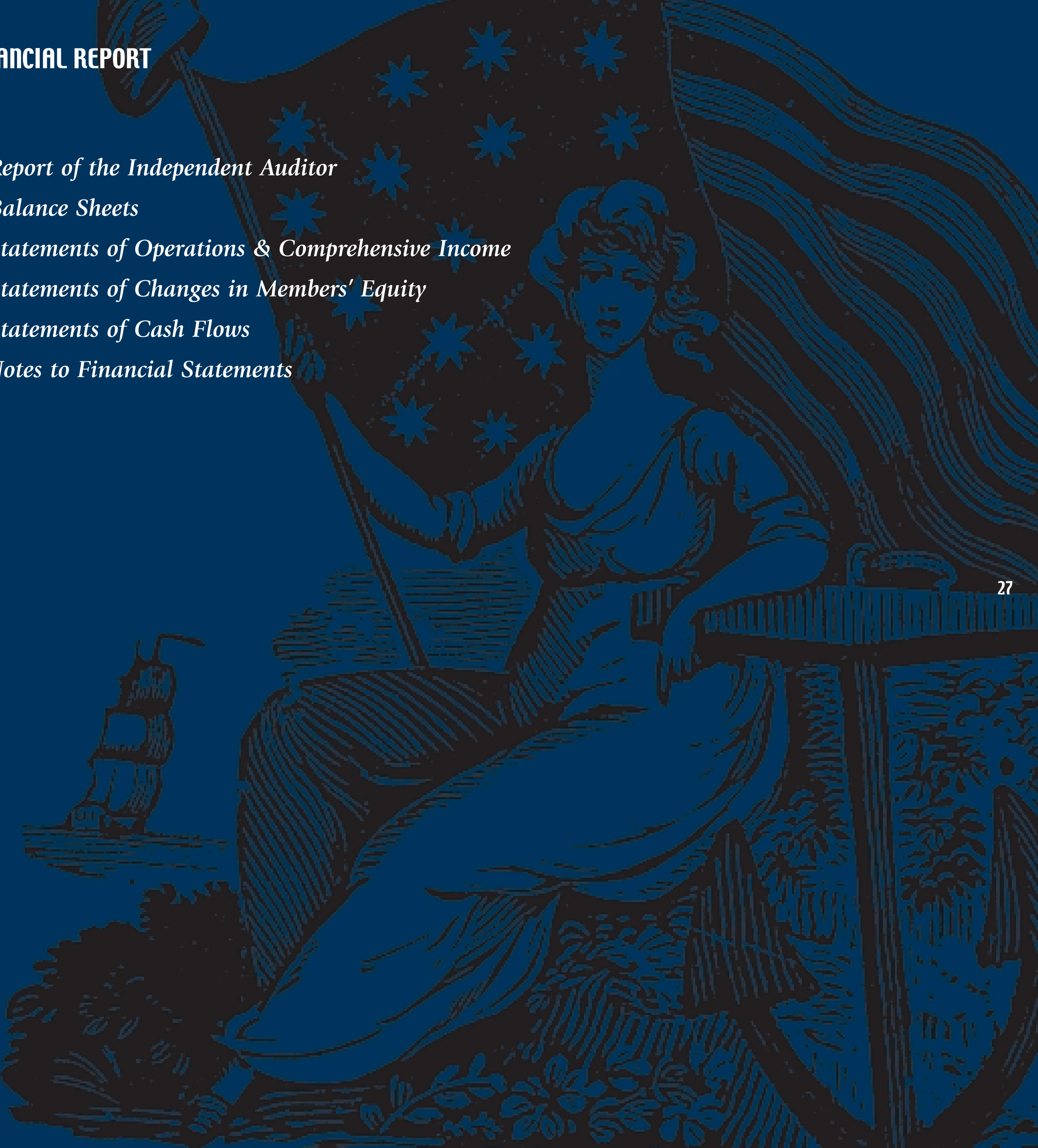
Recent geopolitical developments suggest uncertainty for the years ahead. There can be little doubt that many of the more comfortable elements of received wisdom in both the commercial and political arenas are undergoing fundamental change. It is to be hoped that these changes will ultimately lead to a more peaceful and prosperous world in the future.

No one will remain unaffected. From the modest perspective of the P&I practitioner, it is to be hoped that the developments which will inevitably affect this industry in the future will continue to be driven by rationality and a long-term commitment to shipowners' needs.

However, whatever the years ahead may bring, the American Club will remain dedicated to providing the most accessible, effective and transparent elements of service to its Members. It will remain unrelenting in the application of its resources to the achievement of impeccable results under examination as to any component of P&I performance.

The Managers join the Directors in thanking all of those who have helped the Club in progressing its aims over the past twelve months – not least, of course, the Members themselves. They look forward with their customary enthusiasm to the future, inspired by a tradition of service and single-mindedly driven to ensure the American Club's continuing success at the forefront of the P&I world.

2002 FINANCIAL REPORT



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To American Steamship Owners
Mutual Protection and Indemnity Association, Inc.

We have audited the balance sheets of American Steamship Owners Mutual Protection and Indemnity Association, Inc. ("the Association") as of December 31, 2002 and 2001, and the related statements of operations and comprehensive income, changes in members' equity and cash flows, for the years then ended. These finacial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant assumptions made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly in all material respects, the financial position of the Association at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 11, 2003

Deloitte
Touche
Tohmatsu

2002 BALANCE SHEETS

IN THOUSANDS	NOTE	DECEMBER 31, 2002	2001
ASSETS			
Investments	3	**$ 55,665**	$ 56,893
Cash and cash equivalents		**7,320**	1,898
Premiums and assessments receivable		**31,123**	25,628
Reinsurance recoverable	5	**18,243**	12,278
Other	4	**6,871**	6,978
Total Assets		**119,222**	103,675
LIABILITIES AND MEMBERS' EQUITY			
Liabilities:			
Unpaid losses and allocated loss adjustment expenses	5	**$ 70,491**	$ 53,468
Unreported losses	5	**11,950**	18,500
Unearned premiums		**8,706**	6,345
Reinsurance payable		**6,991**	6,475
Other	4	**777**	1,211
Total Liabilities		**98,915**	85,999
Commitments and contingencies	8		
Members' Equity:			
Retained earnings		**19,797**	16,553
Accumulated other comprehensive income		**510**	1,123
Total Members' Equity	10, 12	**20,307**	17,676
Total Liabilities and Members' Equity		**$119,222**	$103,675

SEE NOTES TO FINANCIAL STATEMENTS
AMERICAN STEAMSHIP OWNERS MUTUAL PROTECTION AND INDEMNITY ASSOCIATION, INC.

2002 STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

IN THOUSANDS	NOTE	DECEMBER 31, 2002	2001
Income:			
Net premiums and assessments earned	6	**$ 53,317**	$ 41,511
Net investment income		**1,384**	2,267
Realized investment gain (loss)		**(1,627)**	368
Total Income		**53,074**	44,146
Expenses:			
Losses and loss adjustment expenses incurred	5	**35,713**	24,902
Other expenses	7	**14,117**	10,244
Total Expenses		**49,830**	35,146
Income Before Income Taxes		**3,244**	9,000
Provision for income taxes		**—**	(65)
Net Income		**3,244**	8,935
Other comprehensive income, net of tax:			
Unrealized losses on investments		**(613)**	(4,984)
Other comprehensive loss		**(613)**	(4,984)
Comprehensive Income		**$ 2,631**	$ 3,951

2002 STATEMENTS OF CHANGES IN MEMBERS' EQUITY

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2001		$ 7,618	$ 6,107	$13,725
Net income		8,935	—	8,935
Unrealized investment losses		—	(4,984)	(4,984)
Balance, December 31, 2001	10	16,553	1,123	17,676
Net Income		3,244	—	3,244
Unrealized investment losses		—	(613)	(613)
Balance, December 31, 2002	10, 12	$19,797	$ 510	$20,307

2002 STATEMENTS OF CASH FLOWS

IN THOUSANDS	DECEMBER 31, 2002	2001
Cash Flows from Operating Activities:		
Premiums and assessments collected, net	**$49,766**	$26,688
Loss and loss adjustment expenses paid, net	**(35,723)**	(39,489)
Underwriting and other expenses paid	**(9,154)**	(5,856)
Interest received, net of expenses	**1,458**	2,454
Income taxes recovered (paid)	**51**	(204)
Other, net	**(677)**	(598)
Net cash provided by (used in) operating activities	**5,721**	(17,005)
Cash Flows from Investing Activities:		
Proceeds from sales/maturities of investments	**34,609**	85,171
Payments for purchases of investments	**(34,745)**	(67,415)
Payments for purchases of computer equipment	**(181)**	(858)
Net cash provided by (used in) investment activities	**(317)**	16,898
Net Change in Cash and Cash Equivalents	**5,404**	(107)
Increase in value of Euro Account	**18**	—
	5,422	(107)
Cash and Cash Equivalents, Beginning of Year	**1,898**	2,005
Cash and Cash Equivalents, End of Year	**$ 7,320**	$ 1,898

1 ORGANIZATION

American Steamship Owners Mutual Protection & Indemnity Association, Inc. ("the Association"), domiciled in New York State, was organized in 1917 to provide protection and indemnity insurance to maritime organizations. Pursuant to the terms of the agreements between the Association and its member-insureds, the Members are charged premiums and subsequent assessments in amounts adequate to cover the Association's net operating expenses which are its total operating expenses, including net losses, less amounts earned by the Association from investment activities.

The Association is managed by Shipowners Claims Bureau, Inc. ("SCB"), an unrelated party. SCB provides administrative, underwriting, accounting and claims processing services to the Association for an annual fee.

2 SUMMARY OF ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. Significant accounting policies include the following:

Investments - Debt securities and equity securities with readily determinable fair values that the Association does not intend to hold to maturity are classified as available for sale securities and are reported at fair value. Unrealized investment gains/(losses) are shown in Members' equity. The Association has no investments in securities classified as held-to-maturity securities. Securities' transactions are recorded on the trade date.

Cash equivalents - Cash equivalents include short-term highly liquid investments with an original maturity of three months or less.

Computer Equipment - Computer equipment consisting of computer hardware, systems and application software, and associated design, programming and installation costs, have been capitalized and are being depreciated using the straight-line method over the estimated useful life of five years.

Liabilities for Losses and Loss Adjustment Expenses - The liability for unpaid losses and allocated loss adjustment expenses represents the Association's best estimate of the gross amount of losses and loss expenses to be paid on ultimate settlement and is provided on the basis of management's and counsel's evaluation of claims filed with the Association. The liability for unreported losses represents the Association's best estimate of the gross amount required to ultimately settle losses which have been incurred but not yet reported to the Association as well as an estimate for future development on reported losses. Given the nature of the coverages written and the size of the Association, fluctuations in the liabilities for losses from year to year are possible.

Reinsurance - The Association's reinsurance contracts do not relieve the Association of its obligations, and failure of a reinsurer to honor its obligations under a reinsurance contract could result in losses to the Association. The Association evaluates the financial condition of each potential reinsurer prior to entering into a contract to minimize its exposure to losses from reinsurer insolvency.

The Association records, as an asset, its best estimate of reinsurance recoverable on paid and unpaid losses, including amounts relating to unreported losses, on a basis consistent with the reserves for losses and in accordance with the terms of its reinsurance contracts. The Association reduces such reinsurance recoverables for amounts not collectible. Substantially all amounts recoverable from reinsurers are due from underwriters at Lloyds of London, Munich Re, and Swiss Re.

Premiums and Revenue Recognition - The statements of operations include those premiums which have been billed in the current year, together with estimates of unbilled assessments.

Income Taxes - The Association is a Shipowners' Protection and Indemnity Association under IRC Section 526 and is therefore only subject to Federal and N.Y. State income taxes on taxable investment income received. Deferred income tax relating to accrued taxable interest and dividends is recorded.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reclassifications - Certain items in the 2001 financial statements have been reclassified to conform with the 2002 presentation.

Impairments - If in management's judgement, the decline in fair value of an investment is other than temporary, the cost of the investment is written down to fair value through realized losses.

3 INVESTMENTS

All of the Association's investments are classified as available-for-sale. Such investments are publicly traded; accordingly, fair values have been determined using quoted market prices.

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2002:				
US Treasury and obligations of other US government corporations and agencies	$ 2,545	$ 21	$ —	$ 2,566
Obligations of states and political subdivisions	39,805	2,210	(11)	42,004
Common stock	12,823	896	(2,624)	11,095
Total	$55,173	$3,127	$(2,635)	$55,665

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2001:				
US Treasury and obligations of other US government corporations and agencies	$ 1,207	$ 12	$ —	$ 1,219
Obligations of states and political subdivisions	37,378	875	(76)	38,177
Corporate bonds	1,460	40	—	1,500
Common stock	15,724	2,410	(2,137)	15,997
Total	$55,769	$3,337	$(2,213)	$56,893

The fair value and amortized cost of available-for-sale debt securities at December 31, 2002 by contractual maturity are shown below. Expected maturities may differ from stated maturities because borrowers may have the right to call or prepay certain obligations with or without pre-payment penalties.

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 3,739	$ 3,785
Due after one year through five years	12,130	12,673
Due after five years through ten years	19,700	21,037
Due after ten years	6,781	7,075
Total bonds and notes	$42,350	$44,570

Proceeds from sales of investments and gross realized gains and losses on such sales are shown below:

	2002	2001
Proceeds from sales of investments	$24,736	$60,257
Gross realized gains	847	2,330
Gross realized losses	2,474	1,962

At both December 31, 2002 and 2001, United States Government Treasury notes in the amount of $310 thousand and $310 thousand, respectively, were deposited with regulatory authorities as required by law.

4 OTHER ASSETS AND OTHER LIABILITIES

	2002	2001
OTHER ASSETS		
Computer equipment and software – net of accumulated depreciation of $1,301 and $1,081, respectively	$ 1,220	$ 1,339
Receivable for securities sold	687	1,976
Accrued interest receivable	511	599
Income tax recoverable	89	213
Deferred income tax	9	10
Prepaid reinsurance premiums	1,580	832
Management fee receivable	231	161
Other assets	1,300	623
Other receivables	1,244	1,225
	$ 6,871	$ 6,978

OTHER LIABILITIES	2002	2001
Accrued expenses	$ 328	$ 459
Income tax payable	—	2
Liability for securities purchased	449	750
	$ 777	$ 1,211

5 UNPAID LOSSES AND REINSURANCE RECOVERABLE

Activity in the liability for unpaid losses and allocated loss adjustment expenses and unreported losses is summarized as follows:

	2002	2001
Gross balance at January 1	$71,968	$83,162
Less reinsurance recoverables	10,224	12,190
Net balance at January 1	61,744	70,972
Incurred related to:		
Current year	34,072	26,478
Prior year	1,641	(1,576)
Total net incurred	35,713	24,902
Paid related to:		
Current year	4,561	6,423
Prior years	24,586	27,707
Total net paid	29,147	34,130
Net balance at December 31	68,310	61,744
Plus reinsurance recoverables	14,131	10,224
Gross balance at December 31	$82,441	$71,968

In 2002, loss emergence for prior years increased by $1,641. The increase reflects normal development of $5,338 for the 2001 policy year through the policy year end date of February 20, 2002, and a favorable emergence of $3,697 for policy years prior to 2001.

Current year net losses incurred reflects continued growth in tonnage at February 20, 2002 and losses on increased non-American business, with their apparent greater frequency and lesser severity. Net claims paid decreased by $5 million reflecting a change in the timing of claims payments. Loss reserves increased overall by $10.5 million.

In 2001, loss emergence for prior years decreased by $1,576. Most of the decrease is a reflection of the greater frequency and speed of settlement with individual non-US sector cases in both the 1997 and 1998 years.

	2002	2001
Reinsurance recoverable on unpaid losses	$14,131	$10,224
Reinsurance recoverable on paid losses	4,112	2,054
Total reinsurance recoverable	$18,243	$12,278

6 PREMIUMS AND ASSESSMENTS

	2002	2001
Premiums written and billed assessments	$63,856	$53,111
Return premiums	(107)	(107)
Reinsurance premiums ceded	(8,819)	(8,284)
Net premiums and assessments written	54,930	44,720
Increase in unearned premiums	(1,613)	(3,209)
Net premiums and assessments earned	$53,317	$41,511

There are no unbilled assessments at December 31, 2002 and 2001. Budgeted assessments billed of $16,751 at December 31, 2002 for the 2002 policy year are collectible in two installments due May, 2003 and August, 2003.
Billed assessments at December 31, 2001 were collectible in several installments during 2002.

7 OTHER EXPENSES

	2002	2001
Management fee	$ 3,494	$ 3,456
Bad debts	(130)	902
Brokerage	5,707	3,466
Other	5,046	2,420
Total other expenses	$14,117	$10,244

8 COMMITMENTS AND CONTINGENCIES

Letters of Credit – At December 31, 2002, the Association had outstanding letters of credit for $12 million, $3 million of which is a Designated Reserve that is required by the International Group Pooling Agreement.

Exposure to Asbestos-Related Claims – Since the early 1980's industry underwriting results have been adversely affected by claims developing from asbestos-related coverage exposures. The majority of such claims allege bodily injury resulting from exposure to asbestos products.

The Association establishes a liability for reported claims as well as an estimate for unreported losses. While management believes that the liabilities for unpaid losses, net of related reinsurance coverages, are adequate in the aggregate, uncertainties exist with respect to estimating the ultimate future amounts that may specifically be needed for unreported asbestos-related claims. Such uncertainties include estimations of the number and value of claims that may be reported, court decisions affecting the Association's liability and the continuing solvency of reinsurers who provided coverage during the applicable policy years.

Asbestos-Related Claims	2002	2001
Aggregate gross losses paid to date at December 31	$4,360	$3,596
Unpaid losses	$ 912	$2,569
Unreported losses	$2,500	$2,500

Other Contingencies – From time to time, asserted and unasserted claims are made against the Association in the ordinary course of business. Management of the Association does not believe that the outcome of any such proceedings will have a material adverse effect on the Association's financial position or result of operations.

9 RELATED PARTY TRANSACTIONS

On December 31, 2001, the Association purchased the outstanding capital stock of SCB from March USA, Inc. for consideration of $1,500,000 ($750,000 paid upon execution and the remainder paid on December 31, 2002). This transaction was recorded as a purchase. On the date of purchase, SCB contributed the net book value of its fixed assets ($750,000) to the Association as a return of capital.

Also on December 31, 2001, the Association subsequently sold its interest in SCB to Eagle Ocean Management, LLC, a related party to SCB. No gain or loss was recorded as a result of these transactions.

10 STATUTORY FILINGS

The Association is required to report the results of its operations to the Insurance Department of the State of New York ("Insurance Department") on the basis of accounting practices prescribed or permitted by the Insurance Department ("statutory accounting practices"), which differ in some respects from accounting principles generally accepted in the United States of America. The principal differences affecting the Association are described below:

Premiums and Revenue Recognition – Under statutory accounting practices, the Association may only record those premiums which are billed at the balance sheet date plus those that are unbilled for which either a letter of credit is held or which may be offset by unpaid losses. Unbilled and unsecured assessments are not reflected in the statutory financial statements, except that the Association is permitted by the Insurance Department to reflect as an admitted asset future assessments up to the difference between the ultimate and present values of unpaid losses. Such amount has been recorded as a direct credit to statutory surplus.

Nonadmitted Assets – Under statutory accounting practices, certain assets, principally premiums receivable over 90 days past due, are not reflected in the statutory statement of assets, liabilities and surplus. Such nonadmitted assets are charged directly against surplus. Under accounting principles generally accepted in the United States of America, such amounts are recorded as assets, net of an allowance for doubtful accounts.

Computer Equipment, Furniture & Supplies – Under statutory accounting practices, the Association is not permitted to capitalize costs relating to applications software, consultants' fees, and furniture and supplies.

Liability for Unauthorized Reinsurance – Under statutory accounting practices, the Association may take credit for reinsurance coverage from reinsurers who are "unauthorized" in New York State only where letters of credit or funds are held by the Association as of the balance sheet date, or are qualified for additional credit pursuant with Part 125.4(e) & (f) of Title 11 of the Rules and Regulations (11 NYCRR), also referred to as Regulation 20. Additionally, the Association may not take credit for reinsurance recoverables from authorized reinsurers where such amounts are overdue. Such unsecured and overdue balances are reflected as a liability charged directly against surplus. Under accounting principles generally accepted in the United States of America, such amounts are recorded as assets, net of an allowance for uncollectible reinsurance.

A reconciliation of statutory surplus as reported to the Insurance Department to Members' equity on the basis of accounting principles generally accepted in the United States of America is as follows:

	2002	2001
Statutory surplus, as reported	$14,737	$17,643
Future assessments receivable up to difference between ultimate and present values of losses	(8,546)	(8,227)
Nonadmitted assets	9,080	4,929
Carrying value of applications software and consultants' fees	1,081	996
Reserve for reinsurance	4,216	4,114
Allowance for doubtful accounts	(2,508)	(2,639)
Unrealized gain on available-for-sale securities	2,238	850
Deferred income tax	9	10
Members' equity on the basis of Generally Accepted Accounting Principles	$20,307	$17,676

State insurance statutes require the Association to maintain a minimum statutory surplus of $250,000, and permit the Insurance Department to specify a higher amount at its discretion. The Insurance Department has specified $7.5 million as the minimum surplus to be maintained by the Association.

11 CASH FLOW STATEMENT

Reconciliation of net gain to net cash provided by operating activities:

	2002	2001
Net income	$ 3,244	$ 8,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond premium	93	90
Gain on long term securities sold or redeemed	1,627	(368)
Depreciation	301	202
	2,021	(76)
Change in:		
Premiums and assessments receivable, net	(5,495)	(15,770)
Reinsurance recoverable	(5,965)	1,547
Other assets	(1,301)	(1,109)
Liabilities for unpaid and unreported losses and loss adjustment expenses	10,473	(11,194)
Unearned premiums	2,361	2,291
Reinsurance payable	516	(1,081)
Other liabilities	(133)	(548)
	456	(25,864)
Net cash provided by (used in) operating activities	$ 5,721	$(17,005)

12 OPEN AND CLOSED YEARS AND CONTINGENCY FUND

The Association maintains separate accounting for each policy year, which runs from February 20 through February 20, and keeps policy years open until the Board of Directors resolve to close the year. Years are closed after the ultimate liabilities for that year are known with a high degree of probability. The 1998/99 policy year was closed March 31, 2002 without further calls.

The Association accounts for premiums, assessments and paid and incurred losses by policy year on a specific identification basis. Other amounts, such as investment income, gains and losses and expenses are allocated to policy years in a systematic and rational manner, so as to maintain equity between policy years.

In 1996 the Board of Directors resolved to create a Contingency Fund from the closed policy years' surplus and investment income of the Association. The purpose of the Contingency Fund would be to moderate the effect of supplementary calls in excess of those originally forecast for a particular policy year by reason of claims for that year having exceeded originally expected levels.

Development of Open Policy Years at December 31, 2002

	1999-00	2000-01	2001-02	2002-03
Income:				
Calls and premiums	$22,441	$21,608	$28,027	$32,967
Supplementary calls debited	9,601	16,213	8,406	14,411
Provision for estimated future calls	—	—	—	—
Investment income	2,386	1,677	1,161	517
Total income	34,428	39,498	37,594	47,895

	1999-00	2000-01	2001-02	2002-03
Expenses:				
Net paid losses	22,082	22,328	14,606	4,754
Net pending losses	4,484	9,296	16,638	26,311
Undiscounted IBNR	200	—	350	3,200
Reinsurance premiums	6,517	9,410	7,545	6,665
Other operating expenses	5,643	6,581	6,471	7,370
Total expenses	38,926	47,615	45,610	48,300
Retained earnings	(4,498)	(8,117)	(8,016)	(405)
Unrealized investment gain	—	—	—	—
Members' equity: open years	$ (4,498)	$ (8,117)	$ (8,016)	$ (405)

(a) A 10% assessment in each of the following open policy years would generate the following net income for the Association (in thousands):

1999/00	$2,033
2000/01	$2,167
2001/02	$2,833
2002/03	$4,060

(b) All amounts are reported in nominal dollars and do not give effect to any discounts.

(c) For the 2002-03 policy year calls and premiums are stated on an earned basis to December 31, 2002. Expenses are stated on an accrued basis for the same period.

Development of Closed Policy Years and Contingency Fund

	2002-03	2001-02
Closed years' balance, January 1	$ —	$ —
Total income earned	(1,605)	796
Net paid losses	4,674	5,963
Net pending losses	(5,137)	(6,198)
Unreported losses (IBNR)	(2,700)	(500)
Reinsurance premiums	(84)	(480)
Other operating expenses	463	282
Total expenses incurred	(2,784)	(933)
Unrealized investment (loss) gain	(613)	(4,985)
Transfer from closed policy year 1998/99	483	—
Transfer from closed policy year 1997/98	—	1,192
Net change	1,049	(2,064)
Transfer (to) from contingency fund	(1,049)	2,064
Closed years' balance, January 1	$ —	$ —

	2002-03	2001-02
Contingency fund balance, January 1	$40,294	$42,358
Transfer from (to) closed policy years	1,049	(2,064)
Contingency fund balance, December 31	41,343	40,294
Open policy years' equity		
1998/99	—	(576)
1999/00	(4,498)	(3,787)
2000/01	(8,117)	(9,489)
2001/02	(8,016)	(8,766)
2002/03	(405)	—
Total Members' equity	$20,307	$17,676

(a) All amounts are reported in nominal dollars and do not give effect to any discounts.

13 LEASES

Lessee Leasing Arrangements

On January 1, 2002, the Association assumed the noncancelable operating lease for its occupied offices that is due to expire August 1, 2010. Rental expense for 2002 was approximately $360,000. Future minimum rental payments are as follows:

Year	Amount
2003	$360,195
2004	$360,195
2005	$375,458
2006	$396,825
2007	$396,825
Thereafter	$1,025,131
Total	$2,914,629

14 AVERAGE EXPENSE RATIO

In accordance with Schedule 3 of the International Group Agreement 1999, the Association is required to disclose its Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment income, averaged over the five years ended December 31, 2002.

The operating expenses include all expenditure incurred in operating the Association, excluding expenditure incurred in dealing with claims. The premium income includes all premiums and calls. The investment income includes all income and gains whether realized or unrealized, exchange gains and losses less tax, custodial fees and internal and external investment management costs. The relevant calculations entail adjustments to calls and premiums to reflect policy years rather than accounting periods. Adjustments are also required for transfers from operating costs to internal claims handling costs and internal investment management costs.

For the five years ended December 31, 2002 the ratio of 11.9% has been calculated in accordance with the Schedule mentioned above and the guidelines issued by the International Group. This compares with a figure of 11.0% recorded twelve months previously – that is to say a small increase.

BOARD OF DIRECTORS (as of February 20, 2003)

PAUL SA, ***Chairman***
(Standard Shipping, Inc.)

JAMES P. SWEENEY, ***Deputy Chairman***
(Penn Maritime Inc.)

ROBERT A. AGRESTI
(P & O Nedlloyd Limited)

LAWRENCE J. BOWLES, ***General Counsel***
(Nourse & Bowles, LLP)

KENNETH T. ENGSTROM
(International Shipping Partners)

DAVID L. GARE
(Polembros Shipping Ltd.)

ROBERT A. GUTHANS
(R.G. Company, LLC)

EARL G. JACKSON
(Midstream Fuel Service, Inc.)

MARKOS K. MARINAKIS
(Marinakis Chartering Inc.)

HARIKLIA N. MOUNDREAS
(Good Faith Shipping Company S.A.)

MARTIN C. RECCHUITE

ROGELIO D. SALINAS G.
(Grupo Protexa)

STEVEN T. SCALZO
(Foss Maritime Company)

THOMAS V. VAN DAWARK

JONATHAN C. WALES
(Reinauer Transportation Companies)

SERVET YARDIMCI
(Yardimci Group)

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JOSEPH E. M. HUGHES

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