THE AMERICAN CLUB

2008 Annual Report

BUILDING ON THE PAST, WELCOMING THE FUTURE

FOREWORD

2008 will be remembered for a global economic crisis of exceptional severity and scope. Despite the difficult business conditions which ensued, the American Club made progress in many areas. Its service capabilities were amplified. Loss prevention initiatives were further developed. Despite some erosion, funds under investment achieved a better-than-benchmark performance. Claims frequency declined. Pooling exposures reduced. The Club's underwriting results continued to develop encouragingly. Although the business environment remains challenging, the American Club is well placed to build on the successes of the past in welcoming the opportunities of the future.

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HIGHLIGHTS

- 2008 renewal sees further improvement in fleet risk profile as quality initiatives continue
- Small decline in tonnage is offset by targeted increase in rates and uplift in deductibles
- Tonnage grows modestly during year reflecting conservative posture in acceptance of new business
- 2005 policy year closed without further call, additional calls made on 2007 and 2008 partly in consequence of global economic turmoil
- Invested funds suffer erosion as financial crisis deepens, but better-than-benchmark performance sustained
- Claims frequency declines, routine severity remains stable
- 2008 Group Pool claims show encouraging improvement over two prior years
- Member service capabilities strengthened: survey program develops robustly: CBT initiative commenced: pre-employment medical program achieves further outreach
- Despite insurer ratings gloom, Standard and Poor's re-affirms American Club's financial strength: stable outlook maintained
- 7.5% increase in mutual advance calls ordered for 2009 together with forecast supplementary call of 20%: fixed premiums undergo similar global uplift: reinsurance costs rise in line with expectations
- 2009 sees small decline in tonnage, but projected rating levels conform to budget
- Free reserves at end of first quarter 2009 increase substantially: suggests cautious optimism for improving outlook

REPORT OF THE DIRECTORS

The Directors 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, 2008.

The American Club's principal activity continued to be the insurance of marine Protection and Indemnity and Freight, Demurrage and Defense risks on behalf of its Members, both owners and charterers.

The Club's Annual Meeting took place in New York City on June 19, 2008. At that meeting, Mr. J. Arnold Witte of Donjon Marine Co. Inc. and Mr. Markos K. Marinakis of Marinakis Chartering Inc. were re-elected as Chairman and Deputy Chairman respectively of the Board. Mr. Lawrence J. Bowles was re-appointed as General Counsel to the Club and Mr. Joseph E. M. Hughes, the Chairman and CEO of the Managers, was re-appointed as Secretary.

At the same meeting, the Board noted with regret the resignation of Mr. Robert A. Guthans of RG Company, LLC. The Board took the opportunity of recording its thanks to Mr. Guthans for his contribution to the affairs of the Club over the more than ten years during which he had served as a Director.

The Board also noted with regret the resignation of Mr. Keith Denholm of Pacific Carriers Ltd. and Ms. Hariklia N. Moundreas of Good Faith Shipping Co. SA as of February 20, 2008. Again, the Board recorded its thanks to both Mr. Denholm and Ms. Moundreas for their contribution to the business of the Club during their respective tenures.

At the meeting, the Board was pleased to welcome the new Directors who had been elected at the Annual Meeting of the Members, as follows: Mr. Morton S. Bouchard III of Bouchard Transportation Co., Inc., Mr. James P. Corcoran, Captain Elias Gotsis of Eurotankers Inc., Mr. Angelos Kostakos of Oceanstar Management Inc. and Mr. Ioannis Vardinoyiannis of Hellenic Seaways Maritime SA. All were welcomed to the Board in the expectation of their making a significant contribution to the affairs of the Club during their period of service.

A full list of current Directors—and the Secretary—is set out on the inside back cover.

In addition to the Annual Meeting, in conjunction with which a regular meeting of the Board was also held, the Directors met on three further occasions in 2008. They met two more times in New York. The last meeting of the year was held in Istanbul in November, being the Board's customary visit to an overseas venue where, in addition to conducting the Club's formal business, the Directors and Managers were able to meet with, and entertain, members of the local shipping community.

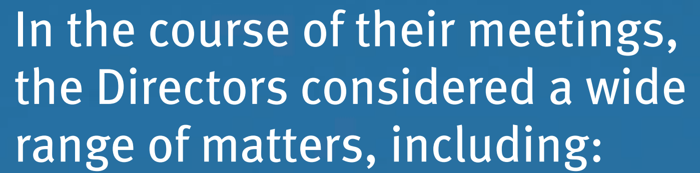
The period under review saw the formal closing of the 2005 policy year, without further call, as of September 30, 2008, the surplus for the year being transferred to the Club's contingency fund in order, inter alia, further to support the Club's overall surplus requirements.

In Club Circular No. 22/08 of November 20, 2008, Members were informed of a requirement for further calls in relation to the 2007 and 2008 policy years being 25% of advance call premium for each year in respect of both Class I (Protection and Indemnity) and Class II (Freight, Demurrage and Defense) mutual entries.

The 2007 policy call was debited with immediate effect and made due for payment in full on May 20, 2009. The call for the 2008 policy year was also debited with immediate effect and made due for payment in full on November 20, 2009.

The release call margin for each year was set at 25% of relevant advance call premium over and above the then currently estimated total premium for the year in question.

These calls were made against a background of the precipitous fall in the capital markets which had commenced some months previously. This sharp downturn had, inevitably, placed unforeseen pressure on the Club's free reserves, a consequence of the global economic turmoil experienced widely within the International Group, and the insurance industry in general.



In the course of their meetings, the Directors considered a wide range of matters, including:

- The election of Directors
- Policy year accounts and the closing of relevant years
- The settlement of claims of the Club’s Members
- The settlement of International Group of P&I Clubs’ Pool claims
- The setting of premium levels for the subsequent policy year
- The monitoring of payments in regard to the settlement of an action seeking a declaratory judgment as to the treatment of unreserved and unreported claims in policy years prior to 1989
- Reinsurance, including developments in the business of the International Group’s segregated cell captive reinsurer, Hydra Insurance Company Limited
- Investment policy
- The outcome of renewal negotiations
- Budgeting policy for relevant policy years
- Changes to the Club’s Rules
- Reports of the business of the Managers’ London, Piraeus and Shanghai offices
- Club publications
- The meetings of managers of the International Group of P&I Clubs and related matters
- Developments in regard to global shipping regulations

The challenges which then confronted—and continue to confront—the world economy were almost without precedent in their severity and scope. Although the American Club was fortunate in experiencing a smaller than benchmark decline in the valuation of its investment portfolio, the additional calls were considered necessary to strengthen the balance sheet in a manner conforming to present and future needs of capital adequacy and surplus funding. Further comment in regard to the financial performance of the Club during the period in review is contained in the Report of the Managers below.

The Club continued to benefit from meetings of the Finance, Claims and Safety and Environmental Protection Committees. Under the auspices of the latter, further editions of *Currents*—the Club's in-house newsletter—were published, and other initiatives undertaken.

Loss prevention and claims control information was also disseminated through the Club's web-based Member Alert system and through Circulars. In addition, the Club's scheme for Pre-Employment Medical Examinations (PEMEs) was further developed and refined.

On the investment front, the Finance Committee continued to review the Club's strategy and received regular reports from the Club's investment advisors in order to monitor the optimum posture for the commitment of the Club's funds, the more so in light of the tumultuous events characterizing the markets during the latter part of 2008.

Despite the economic turmoil, the American Club sustained a year-to-date decline in the value of its funds available for investment as of December 31, 2008 of only 8.5%. This compares with declines of nearly 32% in the Dow Jones Industrial Index, 37% in the S&P500, nearly 40% by reference to the NASDAQ index and over 43% in relation to the commonly used MSCI EAFE index of overseas stocks.

The reasons for the Club's outperformance were its overweighting in fixed-income securities, predominantly invested in tax-efficient municipal bonds, and a negligible exposure to downside currency risks. The Club continued its long-held investment policy of placing paramount importance on capital preservation which, in the result, served it well in difficult conditions.

Moreover, there were grounds for cautious optimism that any upturn in the markets, faltering though they might be, would continue to generate benefits for the Club, the more so given its prudently defensive investment posture. Again, the subject is dealt with in further detail in the relevant section of the Report of the Managers.

The Claims Committee met on four occasions during 2008 in order to consider claims development on recent policy years, recent court decisions, the development of International Group Pool claims and other related matters. In this context, it was pleasing to note a decline in the incidence of claims during the period under review, even though individual severities remained broadly constant. However, Pool claims for 2008 appeared to be developing at a significantly lower level than those of earlier years, notably 2006 and 2007.

As was the case in the previous year, the Claims Committee was also involved in liaising with the Safety and Environmental Protection Committee and the Club's underwriting department as part of the continuing plan to achieve superior technical results for 2008 and the years beyond.

In closing, the Directors thank the Members for their continuing support of the Club. The events of the past twelve months—particularly in the financial sector—have been extraordinarily challenging. Challenges continue to lie ahead, not only for the American Club but for the industry as a whole. In spite of this, the Club remains thoroughly optimistic as to the future. It holds many exciting prospects for itself, for its Members, and for its many other friends at home and abroad. ■

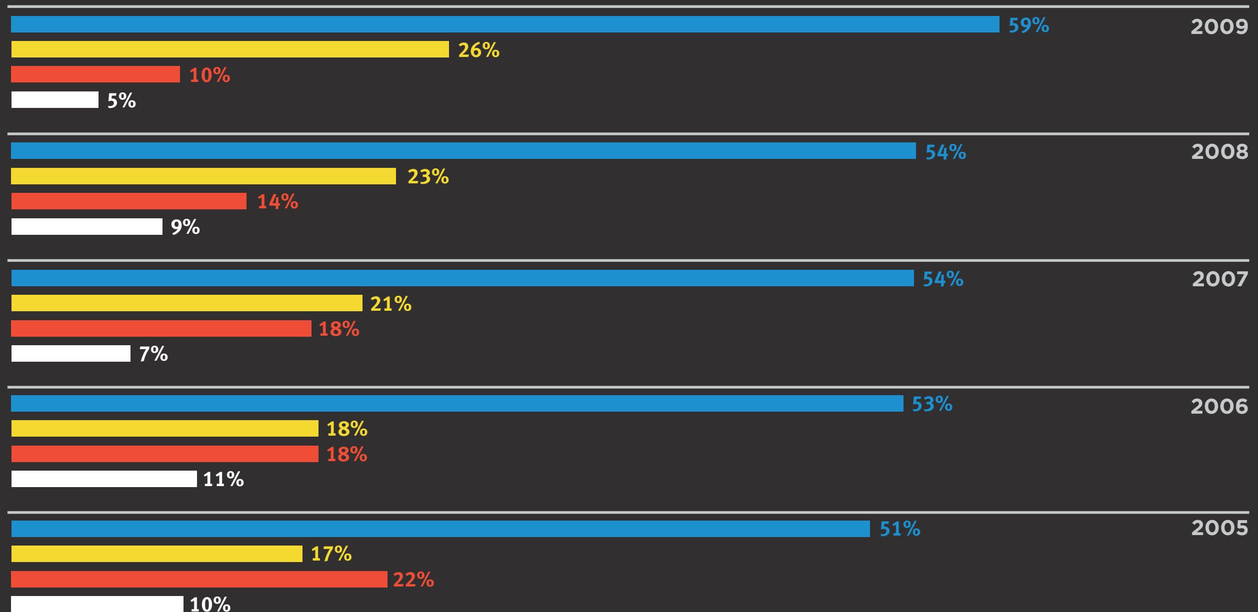
The American Club made progress in 2008, despite the turmoil which afflicted the global economy in the second half of the year. This was on a scale without recent precedent in its severity and scope.

REPORT OF THE MANAGERS

The collapse in the value of assets, the availability of credit, the price of commodities, the confidence of consumers and, consequently, financial prospects in general were soon being described as a "once-in-a-century" phenomenon. The global reach of the crisis was, by reason the integration of modern financial markets, again largely unprecedented.

Its effects reverberated throughout the maritime industry. The precipitous fall in certain freight indices which attended the severe erosion of asset values, reflecting paralysis in the banking sector and a concomitant reduction in demand, placed great pressure on operating results, particularly in the dry bulk and container trades.

Nevertheless, despite these challenges, the American Club continued to move forward in developing its strategic aims.



OWNED AND CHARTERED TONNAGE BY VESSEL TYPE

BULK CARRIERS | TANKERS | GENERAL CARGO/CONTAINER/PASSENGER/RO-RO | TUGS/BARGES/SMALL CRAFT

ENTERED TONNAGE, UNDERWRITING AND REINSURANCE

The 2008 renewal featured the continuing appraisal of the Club's underwriting portfolio by reference to vessel and management quality. This was in continuation of initiatives commenced in 2006.

For 2008, the Club's Board had mandated a general increase of 20% on expiring mutual P&I premiums, 15% on fixed premium P&I business and 10% on Freight, Demurrage and Defense entries, both mutual and fixed. This was linked, as had been the case in the previous year, to an increase in deductibles where appropriate.

Tonnage levels following the renewal remained broadly stable in the mutual sector, but charterers' business underwent a decline. Tonnage grew to a modest extent as the year unfolded, the Club maintaining a conservative posture in the acceptance of new business.

For the February 20, 2009 renewal the Board ordered that a general increase of 7.5% be applied to both mutual P&I and mutual Freight, Demurrage and Defense insurances and that, in each case, the advance call premium thus generated be subject to a supplementary call in due course estimated at 20% of relevant advance calls.

An increase in the fixed premium sector of 27.5% was also ordered. Deductibles were again to be adjusted, as the need arose, to take account of the circumstances of particular fleets and certain types of claims exposure.

The 2009 renewal saw a small reduction in entered tonnage but, year-on-year, a significant increase in average rates per ton. Across all classes, average estimated total premium rose by approximately 25% by comparison with the original forecast for 2008, not taking into account the cash effect of increases in deductibles where these were obtained.

The tonnage which was not renewed at February 20, 2009 had a net loss ratio for the 2002 to 2007 policy years inclusive of some 91%. This, as was the case over the two previous renewals, inferred that renewed entries would exhibit a better performance than that experienced on average in the past.

The Club's current membership by reference to vessel type, the proportion of tonnage attributable to owners' and charterers' insurances and its breakdown by reference to management domicile, is set out in the tables on pages 10, 11, and 12 respectively.

The weighting of entered tonnage as between owned and chartered entries has moved substantially toward that insured on behalf of owners, while the Club's entry in relation to management domicile has also undergone change.

Across all classes of business, European owners now represent 65% of total Club tonnage, a lower proportion than the previous year at the same stage, while entries from the US and Asia have commensurately increased. They are now broadly similar at about 16% each of entered tonnage, the remainder of the Club's business having its origin for the most part in the Middle East and Latin America.

On the reinsurance front, the Club's arrangements during 2008 remained essentially unchanged from those of 2007.

Participation in the International Group of P&I Clubs' reinsurance program continued, entailing a retention of $7 million

per claim and sharing in the Group Pool for a further $43 million over and above that figure. The lower layer of the Pool remained at $23 million during 2008, the upper tranche (i.e., $20 million excess of $30 million) being reinsured, as has been the case since 2005, by the International Group's Bermuda-based captive, Hydra Insurance Company Limited.

Hydra is a segregated cell captive which reinsures the Group's exposure to claims in the upper layer of the Pool as well as the 25% vertical co-insurance which the Group retains on the first $500 million of its market protection. Each cell reinsures its respective club for this purpose.

Above the pooling layer, the American Club continued to benefit from the cover afforded by the International Group's commercial reinsurance program. Its design remained the same as that which had applied during the year before when, as reported twelve months ago, certain important changes had taken place.

For 2009, the arrangements remain broadly the same as those for 2008. In light of the recent deterioration of the Group's record with reinsuring underwriters, there was an uplift in global premium of approximately 17%, taking account, too, of a year-on-year increase in tonnage, applying in different proportions across the usual categories of vessel types.

Individual club retentions remain at $7 million for 2009, those clubs within the International Group which sought to have the threshold raised to $8 million having failed to secure the necessary percentage of votes for a change.

So far as the structure of the Pool itself is concerned, a change has been made in regard to how pooling contributions are calculated for 2009. The tripartite formula based on each club's premium, claims and pooling record which previously applied only to the lower layer of the Pool, i.e. for $23 million excess of $7 million in 2008, has now been extended to apply to the upper layer thereof in addition. Until the current year, this tranche (being $20 million excess of $30 million) had been subject to a contribution formula based on tonnage alone.

As to the level of Pool claims generally, 2008 has to date developed more favorably than its two predecessor years. The cumulative total of Pool claims for the period currently stands at some $88 million. This compares with $516 million for 2006 —the worst year on record—and $437 million for 2007.

Whether the improved performance of 2008 points to a more benign, medium-term development of larger claims, particularly in light of reduced ship utilization, remains to be seen. Pool claims exposure tends to be volatile. While systemic trends within the industry might suggest continuing improvement in the short-term, the expansion of shipowner liabilities through political and judicial activism would appear to justify a cautious outlook.

So far as the reinsurance of the Club's retained exposures is concerned, the arrangements for 2008 were negotiated on favorable terms, the contract providing for protection against claims for $3.5 million excess of a $4 million by way of aggregate deductible. The cover limit was $10.5 million. 70% of the risk was placed with Munich Re and 30% with Swiss Re.

For 2009, the basic elements of the protection remain the same (i.e., the contract provides cover for claims of $3.5 million excess of $3.5 million), but the annual aggregate deductible has been increased to $7 million. The reinstatement provisions have also changed somewhat, although the annual aggregate limit of liability of $10.5 million remains the same. The cover has again been renewed with Munich Re and Swiss Re for the current year, in identically the same proportions.

Notwithstanding these changes in terms—particularly the increased annual aggregate deductible—the contract pricing remains competitive as to initial cost, and continues to provide a sound basis of protection for the Club going forward.

SUPPLEMENTARY CALLS

The period under review saw the formal closing of the 2005 policy year, without call in excess of the most recent forecast, as of September 30, 2008.

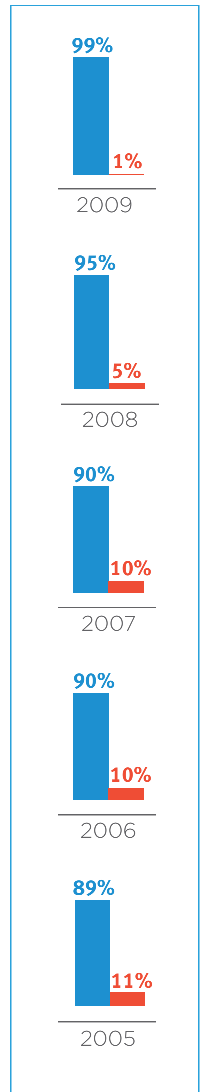
While the level of incurred claims for 2007 and 2008 was developing in line with expectations toward the end of the third quarter, and while the Club's investment portfolio had not been as radically affected as might have been the case had it held a larger proportion of equities, the sudden erosion of asset values created by the global economic crisis created circumstances making necessary further calls to support the Club's capital position.

Accordingly, it was decided at the meeting of the Club's Board in November 2008 to levy an additional supplementary call of 25% of advance call premium for both Protection and Indemnity (Class I) and Freight, Demurrage and Defense (Class II) mutual entries for the 2007 policy year, the call to be debited with immediate effect and fall due for payment in full on May 20, 2009.

For 2008, similar action was taken at the same time, the 25% supplementary call for both Protection and Indemnity and Freight, Demurrage and Defense entries being debited with immediate effect and falling due for payment in full on November 20, 2009.

At the same November Board meeting it was also decided that the 2006 year should be considered for closure within the first half of 2009.

SPLIT BETWEEN OWNED AND CHARTERED TONNAGE



FINANCE AND INVESTMENTS

So much has been written recently in regard to the events which occurred in the financial markets in the second half of 2008 that further detailed comment is probably superfluous.

However, despite the extremely hostile economic climate, and the balance sheet stress it created, there were positive elements characterizing the Club's financial condition at the height of the financial storm.

First, despite the severe downturn in most market indices since the beginning of 2008, the year-end value of the Club's funds available for investment declined by only some 8.5%. Because the majority of the Club's portfolio was held in fixed income securities and cash, amounting, by December 31, 2008, to some 75% of the total fund, the fall in equity prices had been offset by a rise in the value of its fixed premium holdings where, in particular, the Club's investments in tax-free municipal bonds outperformed.

Moreover, the strengthening of the US Dollar as a currency of refuge in the deepening crisis benefited the Club in several ways. Most importantly, it reduced its overseas costs in US Dollar terms and, since its investment exposure in non-US Dollar denominated assets was of a small order, the Club's susceptibility to losses arising from the devaluation of some foreign currencies against the Dollar was relatively subdued.

At year end, the Club's portfolio, as mentioned above, had declined in value by approximately 8.5%. This was a respectable result, given that the Dow Jones Industrial Index had fallen by nearly 32% during the year, the S&P 500 by some 37% and the MSCI EAFE index—a common measure of overseas stock market performance—by over 43%. The return on municipal bonds, which, as mentioned above, formed the major part of the Club's holdings, was some 5.9% during the period under review.

The favorable trend for the Club has continued into the new year so that, as of March 31, 2009, despite the continuing negativity of global economic indicators, the portfolio return has remained flat by comparison with its year-end position.

CLAIMS

The Club's claims experience during 2008 was mixed.

There were, in all, four major incidents which each exceeded $6 million by way of total incurred exposure, a level of individual claims severity which the Club had not seen for several years.

On the other hand, while these large claims increased the aggregate claims value for 2008, the year also saw a decrease in the number of reported incidents.

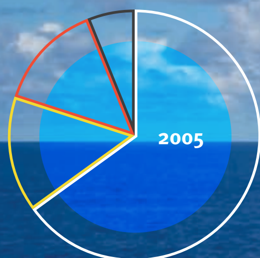
In past years, cargo claims and personal injury, illness and death claims accounted for nearly 75% of the Club's claims exposure. However, in 2008, and somewhat untypically, claims arising from collisions, sinkings and third party property damage were also prominent features of the Club's experience.

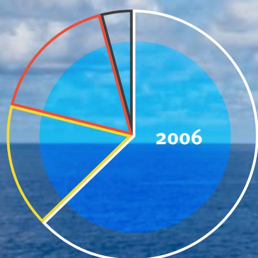
Cargo claims, which traditionally account for about 40% of the Club's claims experience each year, only accounted for 21% of 2008 claims by value. While there were 40% fewer cargo incidents in 2008 by comparison with 2007, the cost per incident was approximately 45% higher in 2008 than in the previous year.

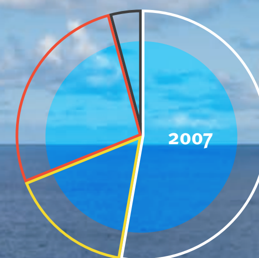
Illness, injury and death claims made up about 14% of the experience by value. However, on an aggregate basis, claims in respect of collision accounted for 15% of the overall total and those in respect of groundings and sinkings about 20%.

It is projected that the Club will have opened about 1,500 claims files, not counting those opened simply for loss-preventative or investigative survey purposes, by the time the 2008 policy year is closed. This will represent both a reduction from the figure for 2007, and a significant abatement from the count for 2006 (2,243) and 2005 (2,884). Accordingly, while 2008 is still comparatively immature, and some further deterioration remains possible, there are grounds for guarded optimism as to future claims trends.

Significant enhancements of the professional capabilities at the disposal of the Club were implemented during the period under review. Resources in the FD&D sector were aug-







mented by a new senior management appointment in New York, while additional staff were added to the Managers' office in Greece to solidify the Club's presence in the Mediterranean region, and to strengthen its service capacity in Southern Europe, the Middle East and sub-continental Asia.

The Managers' London office continued to play a vital role in the Club's affairs, particularly in the handling of certain major incidents entailing complex negotiations and the deployment of a wide range of professional support services.

2008 also saw the completion of the first operational year for the Managers' Shanghai office. This has significantly increased the level of claims handling service in East Asia, especially in the People's Republic of China where the Club's membership has grown of late, and where many other Members' ships are occupied in international trade.

As mentioned above, International Group Pool claims continued to develop during the period under review, with those for both the 2006 and 2007 policy years showing further deterioration. The aggregate total for 2006 has eclipsed that for any single earlier year and now stands at a level comfortably in excess of $500 million. 2007 is not far behind at $437 million. The American Club's share of the 2006 Pool amounts at present to about $14.5 million, and its contribution in respect of 2007 stands at about $10.6 million.

However, by contrast, signs for the development of the Pool for 2008 are encouraging. The figure for the most recent year shows an aggregate total of $88 million. It is to be hoped that 2008 will buck the trend of its two predecessor years.

The American Club's continuing efforts to defeat spurious cargo shortage claims by way of anti-suit injunctions bore fruit in November 2008 when the English High Court issued landmark rulings. In the KALLANG and DUDEN cases, the Commercial Court in London held that cargo insurers were liable for damages as a result of arresting two vessels entered with the Club in West African jurisdictions in an attempt to force the Members to relinquish their rights to arbitrate any alleged cargo claims in London as required by the underlying bills of lading and charterparties.

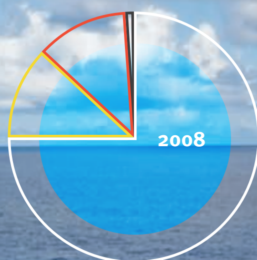
The Commercial Court not only ruled that these circumstances warranted the granting of an anti-suit injunction, requiring all cargo disputes to be heard in arbitration in London, but it also held that—in essence—cargo insurers were liable in tort for refusing an American Club letter of undertaking and insisting upon local jurisdiction.

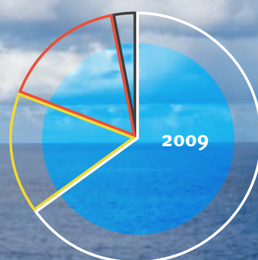
These rulings represent a welcome strengthening of the position of shipowners and their P&I insurers seeking to oppose what has rightfully been regarded in recent years as an abusive practice in certain jurisdictions where vessels have been arrested under demands for security by way of bank guarantee only, and where highly inflated claims settlements have subsequently ensued.

Again as mentioned earlier, the sharp decline in the financial markets toward the end of 2008 caused a similar slump in hire and freight rates, depressing a once robust and vibrant market. The effects of the economic crisis have been felt across all sectors of the shipping industry, and in a variety of ways.

The laying-up of a growing number of vessels has created additional port congestion entailing an increasing likelihood of collisions and other incidents involving third party property damage. Problems associated with these trends were communicated most recently by a Member Alert as to the position at Singapore anchorages in particular.

The difficult economic climate has also engendered an uplift in the number of FD&D cases being notified, such as those related to vessel sale and purchase contracts, and those concerning the construction of new buildings. Traditionally, legal disputes increase in depressed markets as the mantra of "every dollar counts" takes hold. This was undoubtedly the case in 2008 and there are signs that the phenomenon will persist in 2009.





EUROPE
U.S.
ASIA
OTHER

OWNED AND CHARTERED TONNAGE BY MANAGEMENT DOCILE

SAFETY AND LOSS PREVENTION

The significant initiatives taken in recent years to enhance the American Club's safety and loss prevention capabilities continued during 2008.

On the vessel inspection front, in furtherance of the objective that entered vessels meet appropriately high standards of maintenance and operation, 259 surveys were completed during 2008.

In order to provide a more cost-effective regime, a global outsourcing arrangement was concluded with Noble Denton Marine Inc. This has worked well, and continues to be a feature of the Club's activity in this area.

As to quality control generally, the Club's loss prevention capabilities continue to be deployed in support of the Club's underwriting activity in order to maintain appropriate standards for the entry of vessels. The protection of the environment, as well as crew and passenger safety, remain guiding principles in this respect, to say nothing of perennial concerns as to vessels' cargoworthiness.

The Club continued to pay attention to the issue of seafarer health. Its pre-employment medical examination (PEME) program was further enlarged during 2008 to include seafarers originating from India and Indonesia. The Club now has 55 clinics approved in 14 countries around the globe.

Environmental protection also took an important place in the Club's focus on loss prevention and risk control during the period under review.

With regard to the Marine Pollution Convention (Marpol 73/78), the Club has been developing the first in a series of computer based training tools (CBTs) to assist Members and their crews in complying with the Convention's requirements.

This initiative has focused in the first instance on compliance with Annex 1 to Marpol 73/78 concerning oil pollution prevention. Entitled *Cleaner Seas: Compliance with Marpol Annex 1*, the CBT material provides seafarers with step-by-step guidance. This material is intended to be the first in a series of CBTs which, in due course, will cover the remaining five annexes to the Convention in question.

In the further development of loss prevention posters addressing issues where seafarer awareness is a significant component of forestalling accidents, the Club also recently released a poster entitled *Are your hatches tight?* This aims to remind seafarers of the need to exercise care in the prevention of water ingress through hatch covers—a common source of cargo claims.

The Club also continued to disseminate information to Members by means of its bi-annual publication, *Currents*. During the period under review a wide range of topics was covered, including manning issues, the prevention of malaria, hatch cover maintenance, updates on the development of the ISM code and matters arising by reference to recent FD&D cases.

ACTIVITY WITHIN THE INTERNATIONAL GROUP OF P&I CLUBS

The American Club continued to play an active role in International Group affairs throughout 2008. As always, the Club's participation was motivated by its desire to promote both the interests of its Members and those of the maritime industry at large.

In addition to the wide variety of matters which perennially occupy the collective attention of the International Group, certain issues were of particular significance during the period under review.

The 2001 Bunkers Convention, on obtaining the requisite number of ratifications, entered into force on November 21, 2008. The Convention provides a regime for the compensation by owners of victims of oil pollution damage caused by bunker spills.

Owners of all vessels over 1,000 gross tons are required to provide evidence of insurance in this regard. International Group clubs had agreed to issue Bunkers Convention blue cards to enable states to issue certificates from August 2008 onward. The arrangement of these blue cards generated much activity toward the end of 2008, and into the renewal season, as requests for their production gathered pace.

2008 also saw the completion of the development of a new treaty, the Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea. The new convention is intended not only to replace the Hague/Hague Visby and Hamburg Rules, but will also have a bearing upon the future of the US Carriage of Goods by Sea Act and other domestic and regional legislation relating to the carriage of goods by sea.

The new Convention was adopted by the UN General Assembly on December 11, 2008 and the ceremony for the opening of signatures to it will be held on September 23, 2009 in Rotterdam. Accordingly, the Convention is likely to be known as the "Rotterdam Rules."

The Convention is designed to legislate not only for the international maritime carriage of goods, but also for the international multimodal carriage of goods where a maritime leg is provided for in the contract of carriage. It is thus best described as a "maritime plus" instrument.

The International Group of P&I Clubs continues to consult with boards as to the implications of the new Convention from a P&I perspective. In the meantime, the new regime has gained the support of the International Chamber of Shipping (ICS), BIMCO, the World Shipping Council (WSC) and ECSA. It is also believed that the new Convention will gain the strong support of the US government from September 2009 onward.

BUILDING ON THE PAST, WELCOMING THE FUTURE

It is nearly fifteen years since the American Club embarked upon a strategy of growth and diversification aimed at bringing it into the twenty-first century suitably resourced and energized.

The strategy developed in phases, the Club adapting its approach as business conditions demanded. Much has been, and continues to be, achieved.

Most recently, the Club has been chiefly occupied in the process of raising its underwriting performance to industry-leading standards. Given recent events in the capital markets, which have highlighted the imprudence of relying upon investment returns as a means of subsidizing deficit underwriting, the Club's recent focus on optimizing its technical results has proved timely.

Indeed, in this connection, the American Club's pure underwriting results continue to be at the leading edge of market performance. And, as an indication of its success in this respect, the Club has recorded an encouraging increase in free reserves as at the end of the first quarter of calendar 2009, auguring well for the future.

In the closing months of 2008, the Club implemented a program of outreach to Members. This took the form of a presentation which was made in several shipping centers around the globe describing the Club's history, current capabilities, recent progress and vision for the future. Entitled *Building on the Past, Welcoming the Future*, special emphasis was placed on how the Club seeks to add value to its Members' business in these currently tempestuous times.

It aims to do so by providing service as one team, with one mission, in the one, interconnected world which binds us together. In so doing, the American Club commits itself to reliable insurance at a sensible cost in support of sound operating results based on healthy underwriting performance.

It seeks to achieve unrivaled levels of customer care. It harbors a solid commitment to the collective strength intrinsic to the International Group of P&I Clubs. Above all, it seeks to distinguish itself through a strong service culture, single-mindedly dedicated to the interests of its Members.

It is through building on traditional values that the Club welcomes the future. It will continue to do so with the enthusiasm and vigor characteristic of its desire to achieve continuing success in the challenging conditions which currently confront the maritime industry around the globe. ■

FINANCIAL REPORT

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REPORT OF THE INDEPENDENT AUDITOR

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

We have audited the accompanying consolidated balance sheets of American Steamship Owners Mutual Protection and Indemnity Association (the "Association") as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates 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 consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2008 and 2007, 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

June 1, 2009

Member of
Deloitte Touche Tohmatsu

2008 CONSOLIDATED BALANCE SHEETS

IN THOUSANDS	NOTE	DECEMBER 31 2008	2007
Assets			
Investments	3	$ 186,889	$ 214,145
Cash and cash equivalents		32,446	25,390
Members' balances receivable		56,346	44,939
Reinsurance recoverable	5	96,431	50,971
Other assets	4	10,036	12,482
Total Assets		**$ 382,148**	**$ 347,927**
Liabilities and Members' Equity			
LIABILITIES:			
Unpaid losses and allocated loss adjustment expenses	5	$ 291,792	$ 260,237
Unreported losses	5	24,390	30,162
Unearned premiums		16,985	14,600
Reinsurance payable		2,446	3,746
Other liabilities	4	10,868	5,213
Total Liabilities		**346,481**	**313,958**
Commitments and Contingencies	8		
MEMBERS' EQUITY:			
Retained earnings		47,791	26,842
Accumulated other comprehensive income		(12,124)	7,127
Total Members' Equity	9, 10	**35,667**	**33,969**
Total Liabilities and Members' Equity		**$ 382,148**	**$ 347,927**

See Notes to Consolidated Financial Statements begining on page 24.

2008 CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

IN THOUSANDS	NOTE	DECEMBER 31 2008	2007
INCOME:			
Net premiums and assessments earned	6	$ 131,621	$ 134,571
Net investment income		5,401	5,539
Realized investment gains (losses)		(5,099)	4,549
Total Income		**131,923**	**144,659**
EXPENSES:			
Losses and loss adjustment expenses incurred	5	72,264	106,959
Other operating expenses	7	38,227	36,298
Total Expenses		**110,491**	**143,257**
Income Before Income Taxes		21,432	1,402
Provision for income taxes		(483)	(225)
Net Income		**20,949**	**1,177**
OTHER COMPREHENSIVE INCOME, NET OF TAXES:			
Unrealized gains (losses) on investments		(19,251)	1,212
Other comprehensive income (loss)		**(19,251)**	**1,212**
Comprehensive Income		**$ 1,698**	**$ 2,389**

2008 CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2007		**$ 25,665**	**$ 5,915**	**$ 31,580**
Net Income		1,177	—	1,177
Unrealized investment gains		—	1,212	1,212
Balance, December 31, 2007		**26,842**	**7,127**	**33,969**
Net Income		20,949	—	20,949
Unrealized investment losses		—	(19,251)	(19,251)
Balance, December 31, 2008	9, 10	**$ 47,791**	**$ (12,124)**	**$ 35,667**

See Notes to Consolidated Financial Statements begining on page 24.

2008 CONSOLIDATED STATEMENTS OF CASH FLOWS

	DECEMBER 31	
IN THOUSANDS	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 20,949	$ 1,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond premiums	1,120	1,160
Realized investment losses (gains)	5,099	(4,549)
Depreciation	634	722
	6,853	**(2,667)**
Changes in operating assets and liabilities:		
(Increase) decrease in Members' balances receivable	(11,407)	6,814
(Increase) decrease in unbilled assessments	2,745	(7,000)
(Increase) decrease in reinsurance recoverable	(45,460)	2,829
(Increase) decrease in other assets	(833)	738
Increase in unpaid and unreported losses and allocated loss adjustment expenses	25,783	8,085
Increase (decrease) in unearned premiums	2,385	(4,175)
Increase (decrease) in reinsurable payable	(1,300)	1,784
Increase (decrease) in other liabilities	(4,345)	3,722
	(32,432)	**12,797**
Net cash provided by (used in) operating activities	**(4,630)**	**11,307**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales/maturities of investments	99,537	81,675
Purchases of investments	(97,751)	(82,449)
Purchases of fixed assets	(100)	(170)
Net cash provided by (used in) investment activities	**1,686**	**(944)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	10,000	—
Net cash provided by financing activities	**10,000**	**—**
Net change in cash and cash equivalents	**7,056**	**10,363**
Cash and cash equivalents, beginning of year	**25,390**	**15,027**
Cash and Cash Equivalents, End of Year	**$ 32,446**	**$ 25,390**
Supplemental Information:		
Income taxes paid	$ 305	$ 305

See Notes to Consolidated Financial Statements begining on page 24.

2008 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS)

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.

During 2005, the members of the International Group of P & I Clubs (the "International Group") created a segregated cell captive insurance company, Hydra Insurance Co. Ltd ("Hydra"). The Association is a minority owner of the general cell and owns 100% of its segregated cell. The results of the Association's segregated cell of Hydra are consolidated with the results of the Association in the consolidated financial statements.

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 consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. Intercompany accounts and transactions have been eliminated. 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 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. The Association's investment in the general cell of Hydra is carried at cost.

Other invested assets are reported at fair value. Fair values are determined based on the Association's proportionate share of the underlying equity of the funds.

A review of investments is performed as of each balance sheet date with respect to investments where the market value is below cost. This review involves consideration of several factors including: (i) the significance of the decline in value and the resulting unrealized loss position; (ii) the time period for which there has been a significant decline in value; (iii) an analysis of the issuer of the investment, including its liquidity, business prospects and overall financial position; and (iv) the Association's intent and ability to hold the investment for a sufficient period of time for the value to recover. The Association's investment portfolio managers have the discretion to sell those investments at any time. As such, the Association cannot assert that it has the intent to hold those investments until anticipated recovery. The identification of potentially impaired investments involves significant management judgment that includes the determination of their fair value and the assessment of whether any decline in value is other than temporary. If the decline in value is determined to be other than temporary, then the Association records a realized loss in the consolidated statements of operations and comprehensive income in the period that it is determined, an the cost basis of that investment is reduced.

Fair Value Measurement – Effective January 1, 2008, the Association adopted the provision of SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

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, Swiss Re, and other members of the International Group.

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, representing an estimate of those assessments expected to be billed during the following calendar year.

Income Taxes – The Association is exempt from income taxes except for Federal and New York State taxes on taxable interest and dividends received. Deferred income tax relating to accrued taxable interest and dividends is recorded. The Company has no uncertain tax positions.

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.

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, except other invested assets that are value based on the value provided by the funds through the investment advisor.

	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2008:				
US Treasury and obligations of other US government corporations and agencies	$ 300	$ —	$ —	$ 300
Obligations of states and political subdivisions	132,241	2,678	1,149	133,770
Common stocks	60,185	2,054	15,839	46,400
Preferred stocks	133	2	5	130
Other invested assets	6,153	705	569	6,289
	$ 199,012	**$ 5,439**	**$ 17,562**	**$ 186,889**

	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2007:				
US Treasury and obligations of other US government corporations and agencies	$ 302	$ —	$ 1	$ 301
Obligations of states and political subdivisions	130,558	1,443	185	131,816
Common stocks	63,635	9,975	4,913	68,697
Preferred stocks	83	11	—	94
Other invested assets	12,439	952	154	13,237
	$ 207,017	**$ 12,381**	**$ 5,253**	**$214,145**

Gross unrealized gain and losses are determined by a purchase lot specific basis as opposed to an individual security basis.

The following summarizes unrealized investment losses by class of investment at December 31, 2008. The Association considers these investments to be only temporarily impaired.

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	COST OR AMORTIZED COST	UNREALIZED LOSSES	COST OR AMORTIZED COST	UNREALIZED LOSSES	COST OR AMORTIZED COST	UNREALIZED LOSSES
December 31, 2008						
US Treasury and obligations of other US government corporations and agencies	$ —	$ —	$ —	$ —	$ —	$ —
Obligations of states and political subdivisions	23,365	(399)	7,975	(750)	31,340	(1,149)
Preferred stocks	66	(5)	—	—	66	(5)
Common stocks	45,085	(14,861)	3,881	(978)	48,966	(15,839)
Other invested assets	3,000	(569)	—	—	3,000	(569)
	$ 71,516	**$ (15,834)**	**$ 11,856**	**$ (1,728)**	**$ 83,372**	**$ (17,562)**

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	COST OR AMORTIZED COST	UNREALIZED LOSSES	COST OR AMORTIZED COST	UNREALIZED LOSSES	COST OR AMORTIZED COST	UNREALIZED LOSSES
December 31, 2007:						
US Treasury and obligations of other US government corporations and agencies	$ —	$ —	$ 302	$ (1)	$ 302	$ (1)
Obligations of states and political subdivisions	6,331	(57)	20,230	(128)	26,561	(185)
Preferred stocks	—	—	—	—	—	—
Common stocks	23,047	(4,048)	2,905	(865)	25,952	(4,913)
Other invested assets	875	(154)	—	—	875	(154)
	$ 30,253	**$ (4,259)**	**$ 23,437**	**$ (994)**	**$ 53,690**	**$ (5,253)**

The fair value and amortized cost of available-for-sale debt securities at December 31, 2008 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	$ 5,842	$ 5,914
Due after one year through five years	46,915	48,028
Due after five years through ten years	47,705	47,563
Due after ten years	32,079	32,566
	$ 132,541	**$ 134,071**

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

	2008	2007
Proceeds form sales of investments	$ 99,537	$ 81,675
Gross realized gains	4,057	6,362
Gross realized losses	8,716	1,813

There were realized losses in the amount of approximately $440 recorded at December 31, 2008 that were a result of an investment being other-than-temporarily impaired. There were no realized losses recorded at December 31, 2007.

At December 31, 2008 and 2007, United States Government Treasury notes in the amount of $310 and $300 thousand par value, respectively, were deposited with regulatory authorities as required by law.

Fair Value Hierarchy

In accordance with SFAS No. 157, the Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Balance Sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Association has the ability to access (examples include most U.S. Government and agency securities).

Level 2 Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets;
b) Quoted prices for identical or similar assets or liabilities in non-active markets;
c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability and long-dated equity derivatives.

As required by SFAS No. 157, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Further, the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Association that economically hedge certain exposures to the Level 3 positions.

The following table presents the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS AS OF DECEMBER 31, 2008

	TOTAL FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
US Treasury and obligations of other US government corporations and agencies	$ 300	$ 300	$ —	$ —
Obligations of states and political subdivisions	133,770	133,770	—	—
Common stocks	46,400	46,380	—	20
Preferred stocks	130	130	—	—
Other invested assets	6,289	—	—	6,289
	$ 186,889	**$ 180,580**	**$ —**	**$ 6,309**

The following is a reconciliation of the beginning and ending balance of financial instruments using significant unobservable inputs (Level 3) for the year ended December 31, 2008.

	2008		
	COMMON STOCK	OTHER INVESTED ASSETS	TOTAL
Opening balance January 1	**$ 20**	**$ 13,237**	**$ 13,257**
Total Gain or Losses included in earnings: (realized/unrealized)			
Realized gains (losses)	—	(895)	(895)
Change in fair value of other invested assets	—	(662)	(662)
Purchase or (Sales):			
Purchase	—	4,653	4,653
Sales	—	(10,044)	(10,044)
Transfer in (out) of Level 3	—	—	—
Ending balance, December 31	**$ 20**	**$ 6,289**	**$ 6,309**

4. Other Assets and Liabilities

	2008	2007
Other Assets		
Computer equipment and software — net of accumulated depreciation of $5,184 and $4,550, respectively	$ 928	$ 1,461
Receivable for securities sold	34	4
Accrued interest receivable	1,755	1,852
Income tax recoverable	—	60
Prepaid reinsurance premiums	1,070	1,258
Management fee receivable	1,289	610
Other assets	4,960	7,237
	$ 10,036	**$ 12,482**
Other Liabilities		
Accrued expenses	719	795
Liability for securities purchased	12	4,417
Note payable	10,012	—
Income tax payable	125	1
	$ 10,868	**$ 5,213**

An unbilled assessment in the amount of $4.3 million and $7 million at December 31, 2008 and 2007 respectively, were recorded as a result of the Association's asbestos-related claims settlement agreement.

On December 17, 2008, the Association borrowed $10 million on a line of credit from Deutsche Bank Trust Company of Americas. Interest on the demand line of credit is calculated using a 3 month LIBOR which was stated at 2.8475 percent. Interest accrued at December 31, 2008 was $12.

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:

	2008	2007
Gross balance at January 1	$ 290,399	$ 282,314
Less reinsurance recoverables	41,252	38,674
Net Balance at January 1	**249,147**	**243,640**
Incurred related to:		
Current year	66,733	72,291
Prior years	5,531	34,668
Total Net Incurred	**72,264**	**106,959**
Paid related to:		
Current year	15,744	8,466
Prior years	80,752	92,986
Total Net Paid	**96,496**	**101,452**
Net balance at December 31	224,915	249,147
Plus reinsurance recoverables	91,267	41,252
Gross Balance at December 31	**$ 316,182**	**$ 290,399**

In 2008, loss emergence for prior years increased by $5.5 million. The increase reflects an emergence of $6.7 million for the 2007 policy year, which turned out to be better than the expected emergence of $11.8 million from the balance of the 2007 policy year ended February 20, 2008. In addition, there was favorable emergence of $1.2 million for policy years 2006 and prior.

In 2007, loss emergence for prior years increased by $34.6 million. The increase reflects unfavorable emergence of $17.6 million for the 2006 policy year, of which $14.8 million was expected development through the policy year end date of February 20, 2007, and an unfavorable emergence of $17 million for policy years 2005 and prior. This increase is due to unexpected development in International Group pool claims as well as a $7 million increase that the Association accounted for in 2007 as a result of the Association's asbestos-related claims settlement agreement.

	2008	2007
Reinsurance recoverable on unpaid losses	$ 91,267	$ 41,252
Reinsurance recoverable on paid losses	5,164	9,719
Gross Balance at December 31	**$ 96,431**	**$ 50,971**

The Association assumes losses from the International Group Pool and cedes losses to reinsurers to limit its exposures. The components of incurred losses are as follows:

	2008	2007
Direct	$ 143,215	$ 98,663
Assumed	8,759	24,580
Ceded	(79,710)	(16,284)
	$ 72,264	**$ 106,959**

6. Premiums and Assessments

	2008	2007
Premiums written and billed assessments	$ 148,983	$ 138,469
Change in unbilled assessments	(2,745)	7,000
Return premiums	(1,512)	(1,230)
Reinsurance premiums ceded	(10,531)	(13,902)
Net premiums and assessments written	134,195	130,337
(Increase) decrease in unearned premiums	(2,574)	4,234
Net Premiums and Assessments Earned	**$ 131,621**	**$ 134,571**

In December 2008, assessments of $21.2 and $18.3 million were levied for the 2008 and 2007 policy years and are due in two separate installments on May 20 and November 20, 2009, respectively. An unbilled assessment at December 31, 2008 in the amount of $4.3 million was recorded as a result of the Association's asbestos-related claims settlement agreement.

In December 2007, an assessment of $11.3 million was levied for the 2006 policy year and capital calls of $3.7 million, $3.8 million, and $4.3 million were levied for the 2005, 2006 and 2007 years, respectively. The assessment and capital calls are recorded in Members' balances receivable and are all due in one installment on May 20, 2008. An unbilled assessment at December 31, 2007 in the amount of $7 million was recorded as a result of the Association's asbestos-related claims settlement agreement.

7. Other Operating Expenses

	2008	2007
Management fee	$ 13,967	$ 13,059
Bad debts	1,015	1,489
Brokerage	13,797	13,434
Other	9,448	8,316
Total Other Operating Expenses	**$ 38,227**	**$ 36,298**

8. Commitments and Contingencies

Letters of Credit – At December 31, 2008, the Association had outstanding letters of credit for $62.3 million, $5.3 million of which is a designated reserve that is required by the International Group Pooling Agreement.

Exposure to Asbestos-related and Environmental 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.

	2008	2007
Asbestos-Related Claims		
Aggregate gross losses paid to date at December 31	$ 7,775	$ 5,830
Loss reserves - reported	1,013	2,700
Loss reserves - unreported	4,042	4,328

In February 2002, a former Member commenced legal action against the Association claiming increased coverage in asbestos-related illness cases applying only one deductible per claim, rather than one deductible per insurance policy year, the Association's long-standing discretionary practice for policy years prior to February 20, 1989.

In May 2004, the Association's Board of Directors resolved to terminate the prior discretionary practice of paying unreported, unreserved or under reserved occupational disease claims on closed policy years prior to February 20, 1989.

In June 2004, the Association filed a Declaratory Judgment Action in Federal Court against all of its pre-February 20, 1989 members (the "former members" or "defendants") seeking a judicial declaration that the Association was entitled to terminate a prior practice of indemnifying those former members with respect to asbestos related and other occupational disease claims against them arising from occurrences (exposure) in the pre-February 20, 1989 years (the "Closed Years Claims"). The basis for the complaint was that, before the accounts for the pre-February 20, 1989 years were closed, the former members had never paid assessments to cover what were then unknown claims. The Association commenced this action because of its concern that the costs of the Closed Year Claims against its former members were being improperly shifted to the Association's current members, without their consent and in violation of the principles of mutuality.

On February 5, 2008, the Association entered into a Settlement Agreement with its former members/defendants ending the Declaratory Judgment action. The Settlement Agreement resolved all of the disputed factual and legal issues raised in the litigation. While the Association will now provide coverage to its former members for their Closed Year Claims, the Association's payment of those claims is subject to an annual cap of $800 thousand, regardless of the aggregate value of the former members' Closed Year Claims, and the former members have agreed to continue to absorb multiple deductibles in calculating the value of their indemnity claims. In effect, the Association's accumulated surplus generated by the former members Closed Years is expected to generate sufficient investment income to fund the annual cap amount requiring little or no contribution from current or future members.

As a result of the Settlement Agreement and as mentioned in Note 5, the Association recorded additional reserves of approximately $7 million at December 31, 2007. Pursuant with the terms of the Settlement Agreement, the Association made a $1.7 million payment in April 2008, representing the $800 thousand payment related to 2007 and a one time $900 thousand payment related to 2006. Additionally, the Association made an $800 thousand payment in January 2009 related to 2008.

With respect to environmental liability, the Association's only exposure arises out of sudden and accidental pollution caused by the escape of polluting substances (primarily oil) from oceangoing or inland river vessels which are capable of navigation.

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. 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. The Association has calculated the future assessment consistent with the methods used in prior years. However, the Insurance Department is currently reviewing the calculation methodology.

Nonadmitted – 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.

Provision for Unauthorized Reinsurance – Under statutory accounting practices, the Association may take credit for reinsurance coverage from reinsurers who are "unauthorized" in New York State 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:

	2008	2007
Statutory surplus, as reported	$ 36,450	$ 36,603
Future assessments receivable up to difference between ultimate and present value of losses	(22,314)	(20,549)
Unbilled assessments, net	4,255	7,000
Nonadmitted assets	9,092	5,513
Carrying value of applications software and consultants' fees	829	1,333
Provision for unauthorized reinsurance	472	2,084
Allowance for doubtful accounts	1,212	1,176
Unrealized gains (losses) on available-for-sale securities	1,533	1,262
STAT ULAE Run-off Adj.	3,942	—
Hydra consolidation adjustment	196	(453)
Members' Equity on the Basis of Generally Accepted Accounting Principles	**$ 35,667**	**$ 33,969**

State insurance statutes require the Association to maintain a minimum statutory surplus of $250 thousand, 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.

10. 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 2005/06 policy year was closed on September 30, 2008, 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

	2006-07	2007-08	2008-09
INCOME:			
Calls and premiums – net	$ 116,653	$ 95,800	$ 79,602
Supplementary calls debited	23,544	18,236	18,247
Capital calls	3,761	4,205	
Provision for estimated future calls	—	—	—
Investment income	5,165	3,362	1,741
Total Income	**149,123**	**121,603**	**99,590**
EXPENSES:			
Net paid losses	69,714	21,302	15,141
Net pending losses	39,964	53,488	42,412
Undiscounted IBNR	983	4,644	8,577
Reinsurance premiums	13,214	12,276	8,558
Other operating expenses	18,547	20,845	19,596
Total Expenses	**142,422**	**112,555**	**94,284**
RETAINED EARNINGS	**6,701**	**9,048**	**5,306**
MEMBERS' EQUITY : OPEN YEARS	**$ 6,701**	**$ 9,048**	**$ 5,306**

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

2006/07: $6,219
2007/08: $6,903
2008/09: $7,962

(b) For the 2008/09 policy years calls and premiums are stated on an earned basis to December 31, 2008. Expenses are stated on an accrued basis for the same period.

	2006-07	2007-08	2008-09
Claims Outstanding (including IBNR) – Open Years			
Gross outstanding claims			
Members' claims	**$ 51,876**	**$ 52,254**	**$ 96,613**
Other Clubs' Pool claims	6,972	9,077	4,548
	58,848	61,331	101,161
Reinsurers' share of oustanding claims			
From the Group excess of loss reinsurance	—	—	1,759
From the Pool	16,725	109	41,451
Other reinsurers	1,177	3,090	6,961
	17,902	3,199	50,171
Net Outstanding Claims	**$ 40,946**	**$ 58,132**	**$ 50,990**

DEVELOPMENT OF CLOSED POLICY YEARS AND CONTINGENCY FUND

	2008	2007
Closed Years' Balance, January 1	**$ —**	**$ —**
Total income earned	(8,346)	11,149
Net paid losses	25,358	21,734
Net pending losses	(21,662)	(18,863)
Unreported losses (IBNR)	(4,710)	7,050
Reinsurance premiums	(674)	(11)
Other operating expenses	3,167	3,333
Total expenses incurred	1,479	13,243
Unrealized investment gains	(19,251)	1,212
Transfer from closed policy year 2005/06	9,771	—
Transfer from closed policy year 2004/05	—	9,532
Net change	(19,305)	8,650
Transfer to contingency fund	19,305	(8,650)
Closed Years' Balance, December 31	**$ —**	**$ —**
Contingency Fund Balance, January 1	**$ 33,917**	**$ 25,267**
Transfer from closed policy years	(19,305)	8,650
Contingency Fund Balance, December 31	**14,612**	**33,917**
Open Policy Years' Equity		
2005/06	—	7,151
2006/07	6,701	5,880
2007/08	9,048	(12,979)
2008/09	5,306	—
Total Members' Equity	**$ 35,667**	**$ 33,969**
Claims Outstanding (including IBNR) – Closed Years		
Gross pending losses		
Members' claims	**$ 87,784**	**$ 69,711**
Other Clubs' Pool claims	7,058	5,930
	94,842	75,641
Pending reinsurance recovery		
From the Group excess of loss reinsurance	375	373
From the Pool	7,025	421
Other reinsurers	12,595	7,685
	19,995	8,479
Net Pending Losses	**$ 74,847**	**$ 67,162**

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

11. Leases

On July 1, 2006, the Association entered into a noncancellable operating lease for its occupied offices that is due to expire April, 1, 2017.

On January 1, 2002, the Association assumed the noncancellable operating lease for its previously occupied offices that is due to expire August 1, 2010. On August 1, 2006, the Association entered into a sublease agreement with a subtenant. The sublease calls for a monthly rental amount of approximately $27 thousand until July 31, 2007, $28 thousand until July 31, 2008 and $29 thousand until July 31, 2009 with annual increases until July 31, 2010.

Rental expense for 2008 was approximately $756 thousand. Future minimum rental payments, excluding any sublease income, are as follows:

YEAR	AMOUNT
2009	$ 1,154
2010	988
2011	779
2012	795
Thereafter	3,378
Total	**$ 7,094**

12. 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, 2008.

The operating expenses include all expenditures incurred in operating the Association, excluding expenditures 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, 2008 the ratio of 15.2% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 12.0% recorded for the five years ended December 31, 2007, an increase of 3.2%, due mostly to a increase in unrealized losses on investments.

UNAUDITED SUPPLEMENTAL SCHEDULES

STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007

	P&I		FD&D	
IN THOUSANDS	**2008**	**2007**	**2008**	**2007**
INCOME:				
Net premiums and assessments earned	$ 124,540	$ 127,801	$ 7,081	$ 6,770
Net investment income	5,110	5,260	291	279
Realized investment gain (loss)	(4,825)	4,320	(274)	229
Total Income	**124,825**	**137,381**	**7,098**	**7,278**
EXPENSES:				
Losses and loss adjustment expenses incurred	68,549	101,780	3,715	5,179
Other operating expenses	36,170	34,472	2,057	1,826
Total Expenses	**104,719**	**136,252**	**5,772**	**7,005**
Income Before Income Taxes	**20,106**	1,129	**1,326**	273
Provision for income taxes	(457)	(214)	(26)	(11)
Net Income	**19,649**	**915**	**1,300**	**262**
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized gains (losses) on investments	**(18,215)**	1,151	**(1,036)**	61
Other comprehensive income (loss)	**(18,215)**	1,151	**(1,036)**	61
Comprehensive Income	**$ 1,434**	**$ 2,066**	**$ 264**	**$ 323**

P&I – represents Protection and Indemnity insurances for Class I Owners' risk and Class III Charterers' risk.

FD&D – represents Class II Freight, Demurrage and Defense insurance.

LOSSES AND REINSURANCE RECOVERABLE
YEARS ENDED DECEMBER 31, 2008 AND 2007

IN THOUSANDS	2008	2007
NET CLAIMS PAID		
Gross claims paid:		
Members' claims	$ 117,903	$ 100,798
Other Clubs' Pool claims	8,287	14,360
	126,190	115,158
Recoveries on claims paid:		
From the Group excess of loss reinsurance	9,185	3,805
From the Pool	14,107	1,344
Other reinsurers	6,402	8,557
	29,694	13,706
Net Claims Paid	**$ 96,496**	**$ 101,452**
CHANGE IN NET PROVISION FOR CLAIMS		
Claims outstanding:		
Members' claims	$ 288,527	$ 263,216
Other Clubs' Pool claims	27,655	27,183
	316,182	290,399
Recoveries on claims paid:		
From the Group excess of loss reinsurance	2,135	373
From the Pool	65,310	21,695
Other reinsurers	23,822	19,184
	91,267	41,252
Net claims outstanding at December 31	224,915	249,147
Net claims outstanding at January 1	249,147	243,640
Change in Net Provision for Claims	**$ (24,232)**	**$ 5,507**

BOARD OF DIRECTORS

As of June 1, 2009

J. Arnold Witte, Chairman DONJON MARINE CO., INC.

Markos K. Marinakis, Deputy Chairman MARINAKIS CHARTERING INC.

Vassilios Bacolitsas SEA PIONEER SHIPPING CORP.

Morton S. Bouchard III BOUCHARD TRANSPORTATION CO., INC.

Lawrence J. Bowles NOURSE & BOWLES, LLP

Richard H. Brown, Jr.

James P. Corcoran

Kenneth T. Engstrom INTERNATIONAL SHIPPING PARTNERS

Elias Gotsis EUROTANKERS INC.

George D. Gourdomichalis G. BROS. MARITIME S.A.

Chih-Chien Hsu EDDIE STEAMSHIP COMPANY, LTD.

Angelos Kostakos OCEANSTAR MANAGEMENT INC.

Michael L. Murley MARTIN RESOURCE MGMT. CORP.

Martin C. Recchuite

Katia Restis ENTERPRISES SHIPPING & TRADING S.A.

Paul Sa STANDARD SHIPPING, INC.

Steven T. Scalzo MARINE RESOURCES GROUP, INC.

George Vakirtzis POLEMBROS SHIPPING LIMITED

Ioannis Vardinoyiannis HELLENIC SEAWAYS MARITIME S.A.

Jonathan C. Wales REINAUER TRANSPORTATION COMPANIES

Servet Yardimci YARDIMCI GROUP

Secretary

Joseph E. M. Hughes

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