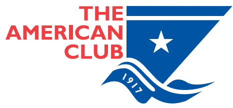

THE AMERICAN CLUB

2009 Annual Report

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2009 was a year of achievement for the American Club. Tonnage and base premium increased. The incidence and value of retained losses continued to decline. Funds under investment generated solid returns as the global economy recovered. Risk control initiatives were expanded. Free reserves achieved record highs as claims moderated and the Club's contingency fund grew. Underwriting results continued to develop in a positive manner. Despite a continuingly difficult business climate, the American Club has never been better placed to exploit the opportunities of the future.

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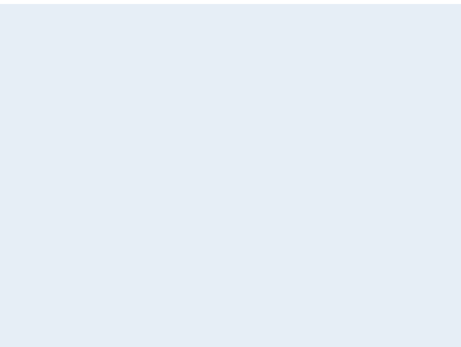
2009 Highlights

- 2009 renewal sees stability in membership, uplift in projected total premium
- Tonnage increases during the year, core rating levels remain firm
- 2006 policy year closed without further call
- Investment earnings grow as markets rebound
- Incidence and value of retained claims decline, severity remains broadly stable
- 2009 International Group Pool claims develop at higher levels than 2008, echo trend of 2006 and 2007
- Member service capabilities enhanced: survey program continues to bear fruit: CBT initiative progresses: pre-employment medical program achieves further outreach
- Zero increase in mutual advance calls ordered for 2010, but supplementary call component of estimated total premium increased from 20% to 25%: overall reinsurance costs develop in line with expectations
- Free reserves show substantial growth during 2009: year-end figure a record, 36% higher than 2008: trend continues into first quarter of 2010



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, 2009.

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 Annual Meeting of Club Members took place in New York City on June 18, 2009. At that meeting, the Directors listed on the inside back cover were re-elected by the Members to serve for a further twelve months in accordance with the Club's By-Laws.

At the Annual Meeting of the Directors, which took place in succession to that of the Members, Mr. J. Arnold Witte of Donjon Marine Co., Inc. and Mr. Markos K. Marinakis of Marinakis Chartering Inc. were re-elected, respectively, as Chairman and Deputy Chairman of the Board. Mr. Lawrence J. Bowles was re-appointed as General Counsel to the Club and Mr. Joseph E. M. Hughes, Chairman and CEO of the Managers, was re-appointed as Secretary. A full list of current Directors — and the Secretary — is set out on the inside back cover.

In addition to the Annual Meetings, in conjunction with which a regular meeting of the Board was also held, the Directors met on three further occasions in 2009. Each of the meetings took place in New York, the Directors being of the view that, in light of the very difficult conditions then prevailing both within the shipping industry and across the world economy in general, forgoing the customary arrangement of a Board meeting in an overseas location was justified in order to save costs.

The period under review saw the formal closing of the 2006 policy year, without further call, as of March 31, 2009, 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 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.
- The development of the financial position of both closed and open years.
- Changes to the Club's Rules.
- Reports of the business of the Managers' London, Piraeus and Shanghai offices.
- Club publications.
- Meetings of managers of the International Group of P&I Clubs and related matters.
- Developments in global and national regulations in regard to shipping policy, and the enforcement of other political initiatives.

In Club Circular No. 27/09 of November 13, 2009, Members were informed that the forecast supplementary call of 20% for the 2009 policy year would be debited as of year-end and made due for payment in two installments on July 20 and October 20, 2010.

The release call margin for the 2007 policy year was reduced to 10%, and that for the 2008 and 2009 policy years was maintained at 25% of relevant advance call premium over and above the then currently estimated total premium for the years in question.

It is pleasing to note that no unforecast additional calls were levied for any year during the course of the period under review. This reflects the strong recovery of the Club's finances following the precipitous fall in the capital markets which had commenced in 2007 and reached its most calamitous stages during the latter half of 2008 and into the early part of 2009.

This downturn had, prior to the end of the 2008 policy year, inevitably placed unforeseen pressure on the Club's free reserves, although the remedial action in this connection taken before the end of 2008 meant that the Club began 2009 in a more robust position than would otherwise have been the case, given prevailing market conditions.

Twelve months ago it was reported that the challenges which confronted the world economy during 2008 were almost without precedent in their severity and scope. Although current economic conditions remain fragile, there are nevertheless grounds for cautious optimism that a global recovery is under way, faltering though it is bound to prove in many respects. In this context, the investment policy followed by the Club during 2009 resulted in a respectable performance by year-end, assisted by the recent rebound in the equity markets which began in the spring of 2009. This is the subject of more detailed comment below, and in the Report of the Managers.

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 important 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 conditions affecting the markets during the latter part of 2008 and into 2009.

Despite the many economic uncertainties during the period under review, the American Club enjoyed a year-on-year return on its funds under investment as of December 31, 2009 of 12.4%. This compares with a year-on-year decline of about 8.5% twelve months earlier.

This was a function, to a significant degree, of the Club's commitment to the equity markets (to the extent of approximately 30% of total funds invested on average throughout the period), and its taking advantage of favorable municipal bond yields which outperformed federal debt over the period. While investment prospects remain a matter of debate, and volatility is likely to persist, the Club's strategy aided its overall results, contributing to a sharp rise in the value of its contingency fund during 2009.

This, coupled with continuously satisfactory results on open years, and a comparatively benign development of retained

claims for 2009, has assisted the Club in recording record levels of both statutory and GAAP surpluses as of December 31, 2009, a matter upon which further comment is made in the Managers' Report.

In short, the favorable trends giving grounds for the optimism mentioned to in last year's Directors' Report have developed as expected. It is hoped that conditions will continue to improve over the months ahead, both within the investment markets and within the global economy which drive the freight rates upon which Club Members rely to generate their own prosperity. It is, of course, upon that prosperity that the Club itself ultimately depends.

The Claims Committee met on four occasions during 2009 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 connection, and as observed twelve months ago, it was pleasing to note a continuing decline in the incidence of claims during the period, even though individual severities remained broadly constant.

Nevertheless, while attritional claims for the Club's own account remained significantly better than those experienced for a number of years, the International Group Pool results for 2009 are trending significantly higher than those for 2008 and somewhat more along the lines of the 2006 and 2007 years. This, of course, is an experience bearing on all clubs within the International Group as to their global exposures to such claims.

As was the case in the previous year, the Claims Committee was also involved in close liaison with the Safety and Environmental Protection Committee and the Managers' underwriting department as part of a continuing initiative to achieve superior technical results for 2009 and the years beyond.

As foreshadowed in comments contained in the report of the Directors in earlier years, the Club continues to enjoy steadily improving underwriting results on renewed business year-on-year. This is commented upon in greater detail in the Managers' Report, but it is worth noting here that independent analysis has shown that the Club has among the very best pure underwriting results among its peers elsewhere within the International Group.

In conclusion, the Directors thank the Members for their continuing support of the Club during 2009 and, of course, over many previous years. Having overseen its affairs during a period of unprecedented turmoil in the financial world from the end of 2007 onwards, your Directors are pleased to say that — in close cooperation with the Club's Managers — 2009 brought about a significant improvement in the Club's fortunes. However, it is clear that challenges will remain over the months and years ahead, not only for the American Club, but for the industry as a whole.

In spite of this, the Club remains characteristically optimistic as to the future. As always, and in light of the progress which has been made during the year under review, it holds many exciting prospects as the Club continues to build a position at the forefront of the P&I industry. Ultimately, of course, the Club depends upon its Members. Their interests remain paramount. Your Directors will never lose sight of this governing imperative, to which their efforts remain unequivocally committed.

Report of the Managers

Despite a global slump which reached crisis point in 2008 and lingered into the early part of 2009, the American Club experienced a satisfactory year, welcoming 2010 with a larger membership and significantly increased free reserves.

The steady progress in the Club's policy of careful risk selection and loss control continued to bear fruit. This, in combination with an improvement in the Club's investment performance over the period, afforded the Club increased traction in strengthening its finances and growing its tonnage and premium base.

The strategic aims underlying this progress remained the same as those which had characterized earlier years. While the global economic outlook remains challenging, the American Club has never been better positioned to exploit the opportunities which lie ahead.

Entered Tonnage, Underwriting and Reinsurance

The 2009 renewal followed a pattern similar to that which had been seen twelve months previously. Specifically, underwriting policy featured the continuing appraisal of the Club's membership by reference to vessel and management quality in continuation of initiatives commenced several years earlier.

For 2009, the Club's Board had mandated a general increase of 7.5% to 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 contribution in due course, estimated at 20% of relevant advance calls.

An increase in fixed premiums of 27.5% was also ordered. As in previous years, deductibles were to be adjusted, as the need arose, to take account of the circumstances of particular fleets and certain types of claims exposure.

Tonnage levels following the renewal experienced a small decline. However, year-on-year, a significant increase in average rates per ton was achieved, in large part due to the incorporation of the 20% forecast supplementary call component of estimated total premium, absent from the original calculation of premium requirements for the previous year. 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. Again, as in previous years, the tonnage not renewed at February 20, 2009 had a substantially less favorable net loss ratio than tonnage remaining in the Club from that date forward.

For the February 20, 2010 renewal, the Board ordered that there should be no general increase applied to expiring advance calls but that the forecast supplementary call for 2010 be 25% of relevant advance calls, rather than the 20% estimated for the 2009 policy year. This connoted an increase for 2010 of some 4.2% in estimated total premium over 2009. As had been the case in the previous year, increases in deductibles and other variations of insurance conditions were also to be applied where appropriate.

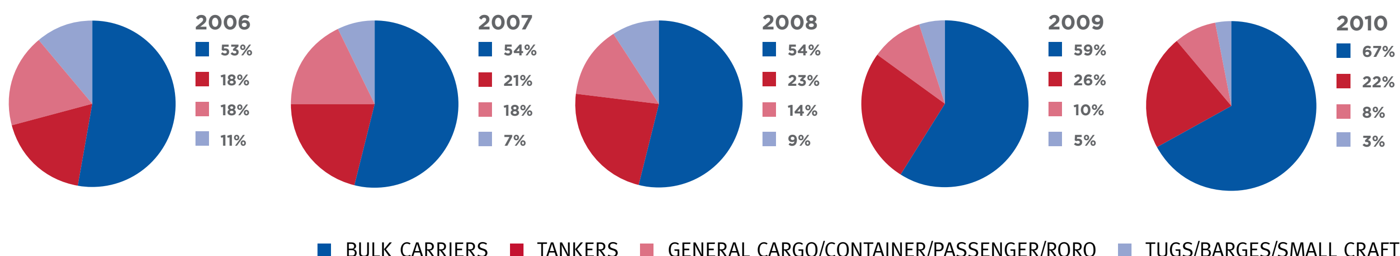
The 2010 renewal saw a small overall gain in total tonnage of some 250,000 gross tons. As to underwriting income, the year-on-year cash increase in net estimated total premium on renewing business was about 2.5% compared with the target of just over 4%. However, as in the case of other renewals, there was some setting-off of premium increases against higher deductibles and other restrictions in insurance terms going forward. Therefore, broadly speaking, the overall increase prescribed by the Board was, in the result, achieved.

When viewed, however, against a broader background of the year-on-year development of total entered tonnage, the most recent renewal speaks well of the Club's progress, particularly over the last six months of 2009.

Tonnage within the P&I class grew to 15.1 million GT from February 20, 2009 to February 20, 2010, an increase of about 19%. Growth in the FD&D class was even greater, with a total entry in this sector of just under 9 million GT as of February 20, 2009 rising to 11.7 million GT a year later, an increase of about 33%.

At the commencement of the 2010 policy year, the dry bulk sector, at 67% of the total, remains the largest constituency of the Club's overall entry. 22% of the total comprises tankers, while general cargo, passenger, container and RoRo vessels account for a further 8%. The tug, barge and small craft sector, at 3%, is now the smallest part of the total by tonnage, but is larger by reference to premium and unit numbers.

Members' tonnage by vessel type



Entered Tonnage, Underwriting and Reinsurance cont'd

As to domicile of management, Europe remains the largest source of Club membership by region, at 58% of the total, but there has been a considerable increase in the proportion of tonnage entered by Asian Members over the past year. This rose from 18% to 24% of the total during the period. The entry of Members from the United States has remained constant at about 15% of the total, with entries from the rest of the world accounting for a further 3%.

The Club's current membership by reference to vessel type, its breakdown by reference to management domicile, and the proportion of tonnage attributable to owners' and charterers' insurances, is set out on pages 12, 15 and 16 respectively.

An encouraging trend — and one that reflects a policy to which the Club has been committed for a number of years — is the steadily improving underwriting results of renewed business. The historical loss ratio of premium against claims for the Club's own account on renewed business in the P&I class improved from 64% to 59% during the year to February 20, 2010. Inclusive of FD&D results — where there was an 8% improvement overall — the Club's renewing entries, on a five year look-back basis as of February 20, 2010, enjoy a 60% loss ratio by comparison with 66% in respect of equivalent tonnage entered a year earlier. This augurs well for the future.

On the reinsurance front, the Club's arrangements during 2009 remained essentially unchanged from those of 2008.

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 2009, 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. In 2009 its design remained the same as that which had applied during 2008.

For 2010, the arrangements remain broadly the same as those for 2009, with the important exception that individual Club retentions for the new policy year are now $8 million per claim rather than $7 million. The attachment point for the International Group's market reinsurance cover remains at $50 million and the Hydra arrangements, which provide reinsurance of the upper layer of the Pool and the 25% vertical coinsurance which the Group retains on the first $500 million of its market protection, remain unchanged.

As to the Pool, 2008 featured a significantly better experience than its two predecessor years. However, 2009 has proved less benign in this regard. Total incurred claims on the Pool to date are in excess of $200 million, a figure of the magnitude experienced in respect of the 2006 and 2007 policy years at the same stage of development.

Last year's Managers' Report contained a rhetorical question as to whether the improved pooling performance of 2008 pointed to a more favorable, medium-term development of larger claims, particularly in light of reduced ship utilization. It was noted, at the same time, that Pool claims exposure tended to be volatile. While systemic trends within the industry then suggested that a short term improvement in large claims exposure might continue, it was also observed that the expansion of shipowner liabilities through political

and judicial activism remained an important feature in predicting future trends. In the result, this cautious outlook appears to have been justified.

So far as the reinsurance of the Club's retained exposures is concerned, the arrangements for 2009 were concluded along the same lines as those which had obtained during the previous year (i.e. for claims of $3.5 million excess of $3.5 million), but with an increase in the annual aggregate deductible from $4 million to $7 million.

For 2010, taking into account the increase in underlying Club retentions for the year, and taking advantage of increased competition for the Club's business, the prior year arrangements have undergone change. Coverage is now placed 50% with Partner Re and 25% each with Munich Re and Swiss Re. There are differential attachment and AAD values in regard to the participants' respective shares. The cost of the cover is somewhat lower than that for the insurance applying to the previous year, although the Club's absorption has increased commensurately. In any event, notwithstanding the changes, the contract remains competitive and continues to provide a sound basis of protection for the policy year ahead.

Finance and Investments

Following a calamitous downturn in the world capital markets in 2008, investor sentiment began to recover in the spring of 2009, creating a concomitant increase in portfolio returns.

There is little further comment that can usefully be added to the extensive public analysis of the causes and effects of "The Great Recession". Nevertheless, while economic conditions remain fragile, and uncertainties continue as to the sustainability of the recovery as government stimulus initiatives are withdrawn — to say nothing of concerns as to rising sovereign debt — 2009 saw a significant rebound in market tone, as well as a rise in most investment indices, notably in the equities sector.

Against this background, the American Club's assets under investment produced a creditable result for the year. Cleaving to its customary policy of capital preservation linked to the cautious development of market opportunity, the Club enjoyed an overall portfolio return of some 12.4%. As in the previous year, invested funds remained under the supervision of Merrill Lynch acting in accordance with the instructions of the Finance Committee by reference to the Club's investment guidelines as mandated by the Board.

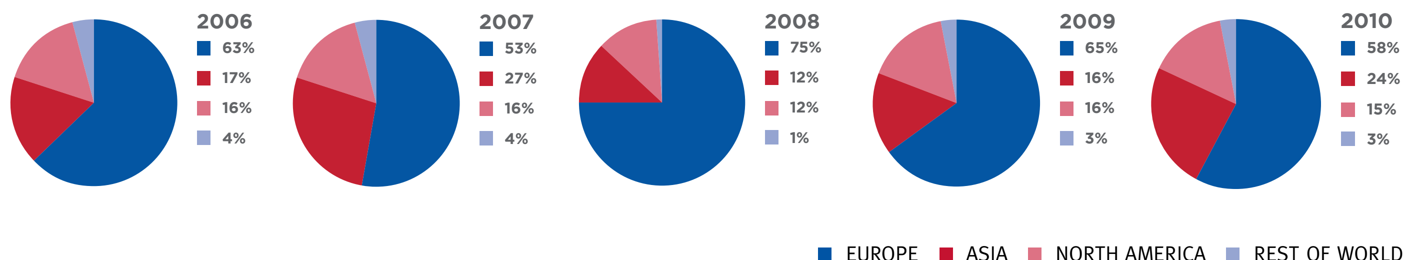
By way of asset class, the Club's funds were maintained throughout the year at a broadly consistent weighting of 70:30 in favor of cash and fixed income to equity investments. In the case of the former, the Club enjoyed the relative outperformance of corporate and municipal bonds (the latter of which also provide significant tax advantages) against US government securities, while in the equities space it enjoyed the benefit of the stock market rally which began in the spring of 2009.

The first quarter of 2010 has seen these trends continue, if at a more measured pace than that of the last six months of 2009. As of March 31, 2010 the Club's investments recorded a further year-to-date return of 2.4%.

While there is an emerging consensus that the world economy is undergoing a slow recovery, it would be incautious to adopt too optimistic a view of the future performance of the investment markets given the many uncertainties which currently prevail.

Nevertheless, the Club's recent investment results have been respectable and, benefiting from the close oversight of its investment managers, Finance Committee and Board, it is to be hoped that further progress will be made over the months ahead.

Members' tonnage by management domicile



Supplementary Calls

The period under review saw the formal closing of the 2006 policy year, without call in excess of most recent forecasts, as of March 31, 2009.

While collection of the additional calls for 2007 and 2008 was made in the course of 2009, it is gratifying to note that no unforecast additional calls were levied for any year during the course of 2009. This reflected the strong recovery of the Club's finances from the end of 2008, and in particular during the closing months of 2009.

The forecast 20% supplementary call for 2009 was levied toward the end of the year and Members were informed in Circular No. 27/09 of November 13, 2009 that the call would be due for payment in two equal installments on July 20 and October 20, 2010.

Claims

The Club's claims experience during 2009 was encouraging.

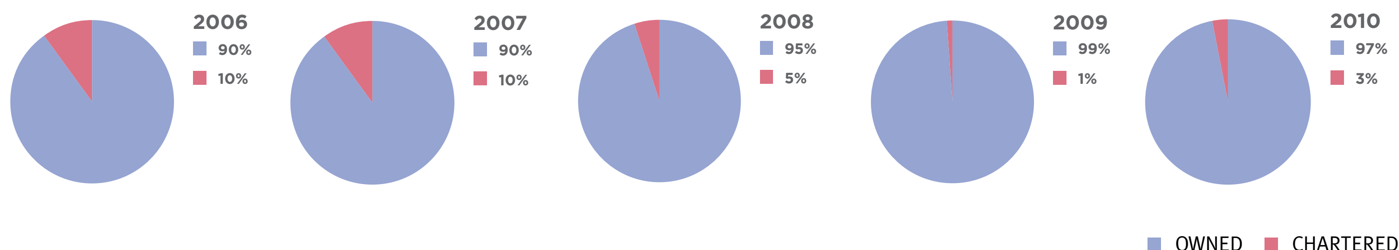
The overall decrease in the total number of reported incidents experienced in recent years continued during 2009, along with a decrease in the overall quantum of claims for the Club's own account by comparison with both 2008 and earlier years in general. Indeed, 2009 is emerging as the most favorable year since 2003 measured by reference to the overall value of the Club's own retained claims exposure at the end of the first year of development.

As to the mix of claims experienced during the year, those in respect of cargo and crew remained the major net exposures in a manner largely consistent with earlier years. Claims under other heads of cover reflected the volatility which is often seen from year to year.

An uplift in the number of collision claims was experienced in 2009 — it being the highest since 2005 — although the aggregate cost of such claims has not been markedly different. This may reflect an increasing incidence of "bumps and scrapes" between vessels at "hot" and "cold" lay-up moorings in consequence of freight market conditions. Only six of 68 incidents occurred at sea rather than in port. Happily, as to the results of these collisions, and generally, there were no sinkings of American Club vessels during 2009.

So far as claims under the Club's Class II, Freight, Demurrage and Defense, cover are concerned, the period under review saw a pattern of development much in line with previous years, with a likely total exposure similar to that seen over the last four years. In the post-Rule B era of the non-attachability of electronic fund transfers routed through New York, claims for unpaid freight or hire remain the most common category.

Split between owned and chartered tonnage



Claims cont'd

It is projected that the Club will have opened a total across all classes of about 1,250 to 1,300 claims files, not counting those opened simply for loss-preventative or claims investigative survey purposes, by the time the 2009 policy year is closed. In continuation of a trend noted last year, this will represent both a reduction from the figure for 2008 (about 1,500) as well as a significant abatement from the high counts of 2005 (about 2,900) and 2006 (about 2,250). Again as was noted last year, this gives grounds for cautious optimism that future claims trends will continue along equally positive lines of development.

While the Club experienced a favorable trend in 2009 as to claims for its own account, this was not, unfortunately, the case in regard to the development of the large claims shared among International Group of P&I Clubs under the terms of its Pooling Agreement to which, of course, the American Club is a party.

Following two years of high exposure in 2006 and 2007 — the former being the worst Pool year ever — 2008 has continued to buck the trend, while 2009 is by contrast emerging along the lines of those two earlier years. At about $200 million by way of aggregate claims at this point, the 2009 Pool is larger than that of 2007 at the same stage, if not as large as that of 2006. However, given the manner in which Pool claims develop over time, it is quite possible that the total Pool for 2009 could be as high as $400 million.

For its own part, the American Club experienced two Pool claims during 2009. The first, the GREAT NEWS, involved damage to a petroleum facility in Jamaica. The second, the ELLI, arose when that vessel broke her back while awaiting entry to drydock in Suez.

During the year, the Club continued to place emphasis on the provision of a professional and highly attentive claims service to Members. The growth in resources mentioned last year added substantially to the Club's capabilities during the period under review, notably in New York.

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

2009 also saw the completion of the second operational year for the Managers' Shanghai office. This important regional capability continues to enhance the level of claims handling and other services to Members, both those domiciled in Asia and those occupied in trade to that region. The office's staff was increased at the beginning of 2010 to take account of its expanding claims activity, in part a reflection of the Club's growing membership from the People's Republic of China and surrounding areas.

Activity within the International Group of P&I Clubs

The American Club continued to play an active role in the affairs of the International Group. As in the case of previous years, the Club's participation was driven by a desire to promote both the interests of its Members and those of the maritime industry at large.

Certain issues were of particular significance during 2009 in addition to those matters which perennially occupy the Group's attention.

The new Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea, also know as the Rotterdam Rules, had garnered widespread approbation, including that of the International Group, at the time it became open for signature on September 23, 2009 in Rotterdam.

Among the first signatories was the United States, together with other important seafaring nations such as Norway and Greece. The extent to which the new regime will gain general currency remains to be seen, although it would appear likely that broad support will be sustained over time.

The issue of piracy continued to be a source of Group concern. Best practices for the deterrence of piracy were concluded under the auspices of various shipping industry associations — subject to the general supervision of EUNAVFOR — and notified to members of International Group clubs by way of circulars.

The issue of sanctions applying to shipping interests domiciled in Iran — and more broadly to those parties trading to and from that country — gained the attention, in addition to that of the relevant United States authorities, of the government of the United Kingdom which placed restrictions on the insurance arrangements of Islamic Republic of Iran Shipping Lines (IRISL) and financial transactions conducted with, and through, Bank Mellat.

In another context, there was extensive discussion as to the extra-territorial effect of prospective US legislation working its way through Congress as the proposed Iran Refined Petroleum Sanctions Act (IRPSA). This prompted most clubs to implement a Rule change for 2010 allowing for mid-term Rule amendments in the event of the Act making illegal the provision of insurance to non-US shipping interests in the circumstances intended by the legislation, and the implications thereof for relevant clubs' abilities to transact business in and through the United States.

2009 also saw the publication of the third European Union Maritime Safety Package — more commonly known as ERIKA III. The package is an agreement reached by the European Council and the European Parliament after several years of intensive negotiations in Brussels on eight regulations and directives of which it is collectively comprised. It followed on from the adoption of two previous packages on maritime legislation in the wake of the ERIKA and PRESTIGE incidents.

These matters — and others — were the subject of circulars to Members during the period under review, many taking the form of common language agreed by all clubs in the International Group.

Safety and Loss Prevention

The initiatives taken in recent years to enhance the American Club's safety and loss prevention capabilities continued during 2009.

On the vessel inspection front, in the furtherance of the vital objective that vessels insured by the American Club meet appropriately high standards of maintenance and operation, 219 surveys were completed during 2009.

These were accomplished through the maintenance of arrangements for the outsourcing of survey work with Noble Denton, BMT and other independent surveyors. The Club's initiatives in this area continue to focus on high standards of testing and inspection and a requirement that any permanent repairs be completed in a timely manner.

This policy has resulted in the continuing improvement of shipboard standards as tested by the Club, as well as a concomitant decline in the number of vessels carrying defect warranties over time.

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 preserve appropriate standards for the insurance of vessels. Environmental protection, as well as crew and passenger safety, remain paramount principles in this respect, to say nothing of perennial concerns as to the cargoworthiness of vessels.

The Club's interest in seafarer health continued in 2009. Its pre-employment medical examination (PEME) program was further expanded to include seafarers originating from Bulgaria. In addition, new clinics were approved in New Delhi and Goa, India; in Surabaya, Indonesia; in Rostov-on-Don, Russia; and in Kherson, Ukraine. The Club now has 66 approved clinics in 16 countries across the globe, an increase from, respectively, 55 and 14 a year earlier.

Environmental protection continued to take an important place in the American Club's focus on loss prevention and risk control during the period under review.

Development of the Club's computer based training (CBT) tool in regard to compliance with Annex I to the International Convention for the Prevention of Pollution from Ships (MARPOL 73/78) was further progressed during 2009 with a view to distribution in the first half of 2010. Entitled *Clean Seas: Complying with MARPOL 73/78*, the CBT material provides step-by-step guidance in this important area. As Members have previously been informed, the material is intended to be the first in a series of CBTs which, in due course, will cover the remaining five annexes of the Convention in question.

The subject of hatch cover watertight integrity remains an important focus of loss prevention efforts, and a series of workshops on this subject was promoted by the Club during 2009 in Piraeus and elsewhere.

The Club also continued to disseminate information to Members by means of Circulars, Member Alerts and its bi-annual publication, *Currents*. During 2009, a wide range of topics was discussed in this publication. They included, for example, the new Rotterdam Rules as to cargo liabilities, cargo handling issues, including issues as to proper dunnaging, steps to be taken in mitigation to the Hepatitis B infection and many other subjects of significance to shipowners.

Building on the Past, Welcoming the Future

Those who read last year's Annual Report, as well as those who have formed the audience to the American Club's presentations in various centers of shipping over the last eighteen months, will recognize the words in the heading. They lie at the core of the Club's mission at the present time.

In building on the past, the Club embarked in 1995 on a strategy of growth and diversification aimed at bringing it into the twenty-first century suitably resourced and energized. The implementation of this strategy was not easy, and many difficulties were encountered as the strategy unfolded, but few would deny the progress achieved by the Club over recent years, often in unpromising circumstances.

In welcoming the future, the Club aims further to build on that progress by providing service as one team, with one mission, in the one, interconnected world which binds us together. The implementation of this goal is predicated upon the provision of reliable insurance at a sensible cost in support of sound operating results based on healthy underwriting performance.

Notwithstanding the difficult global business climate of the last two years, which is only now showing signs of improvement, 2009 was a year of real progress for the American Club. Its underlying claims exposures continued to abate, its investment performance developed favorably, its tonnage grew and its free reserves increased.

Predictions as to continuing growth and positive financial development are dangerous, particularly in light of current global economic uncertainties. Nevertheless, the experience of 2009 — and the emergence of the new policy year to date — provides grounds for guarded optimism about the future. Time will tell, but recent results point in a positive direction.

The progress made during 2009, and into the early stages of 2010, provides cause for the American Club to welcome the future with enthusiasm and continued vitality. Significant challenges, affecting both the global economy and the shipping industry, persist. But, having achieved much in the recent past, the American Club will continue to work for yet further progress over the years ahead.

This will continue to require the dedication of the Managers in providing those high levels of day-to-day service which are rightfully expected of modern P&I insurers. It will also depend upon the loyal support of the Club's Members and its many friends at home and abroad, for whom its future will be built, and to whom thanks for another successful year are most warmly extended in closing.

Financial Report

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REPORT OF THE INDEPENDENT AUDITOR

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

We have audited the accompanying balance sheets of American Steamship Owners Mutual Protection and Indemnity Association (the "Association") as of December 31, 2009 and 2008, and the related statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended. These financial 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 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 financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2009 and 2008, 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 24, 2010

2009 CONSOLIDATED BALANCE SHEETS

		December 31	
IN THOUSANDS	NOTE	2009	2008
ASSETS			
Investments	3	**$ 190,600**	$ 186,889
Cash and cash equivalents		**25,677**	32,446
Members' balances receivable		**40,027**	56,346
Reinsurance recoverable	5	**95,136**	96,431
Other assets	4	**9,850**	10,036
Total Assets		**$ 361,290**	$ 382,148
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES:			
Unpaid losses and allocated loss adjustment expenses	5	**$ 251,027**	$ 291,792
Unreported losses	5	**32,127**	24,390
Unearned premiums		**14,803**	16,985
Reinsurance payable		**2,868**	2,446
Other liabilities	4	**12,134**	10,868
Total Liabilities		**312,959**	346,481
COMMITMENTS AND CONTINGENCIES			
MEMBERS' EQUITY:			
Retained earnings		**42,894**	47,791
Accumulated other comprehensive income (loss)		**5,437**	(12,124)
Total Members' Equity	9, 10	**48,331**	35,667
Total Liabilities and Members' Equity		**$ 361,290**	$ 382,148

See Notes to Consolidated Financial Statements.

2009 CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

IN THOUSANDS	NOTE	December 31 2009	2008
INCOME:			
Net premiums and assessments earned	6	$ 103,409	$ 131,621
Net investment income		4,656	5,401
Realized investment losses		(1,465)	(5,099)
Total Income		106,600	131,923
EXPENSES:			
Losses and loss adjustment expenses incurred	5	75,918	72,264
Other operating expenses	7	35,378	38,227
Total Expenses		111,296	110,491
Income Before Income Taxes		(4,696)	21,432
Provision for income taxes		(201)	(483)
Net Income (Loss)		(4,897)	20,949
OTHER COMPREHENSIVE INCOME, NET OF TAXES:			
Unrealized gains (losses) on investments		17,561	(19,251)
Other comprehensive income (loss)		17,561	(19,251)
Comprehensive Income		$ 12,664	$ 1,698

2009 CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2008		$ 26,842	$ 7,127	$ 33,969
Net income		20,949	—	20,949
Unrealized investment losses		—	(19,251)	(19,251)
Balance, December 31, 2008		47,791	(12,124)	35,667
Net loss		(4,897)	—	(4,897)
Unrealized investment gains		—	17,561	17,561
Balance, December 31, 2009	9, 10	$ 42,894	$ 5,437	$ 48,331

See Notes to Consolidated Financial Statements.

2009 CONSOLIDATED STATEMENTS OF CASH FLOWS

IN THOUSANDS	December 31 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	**$ (4,897)**	$ 20,949
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond premiums	**1,003**	1,120
Realized invesment losses	**1,465**	5,099
Depreciation	**300**	634
	2,768	6,853
Changes in operating assets and liabilities:		
(Increase) decrease in Members' balances receivable	**16,318**	(11,407)
(Increase) decrease in reinsurance recoverable	**1,295**	(45,460)
(Increase) decrease in other assets	**(92)**	1,912
Increase (decrease) in unpaid and unreported losses and allocated loss adjustment expenses	**(33,028)**	25,783
Increase (decrease) in unearned premiums	**(2,182)**	2,385
Increase (decrease) in reinsurace payable	**422**	(1,300)
Increase (decrease) in other liabilities	**1,278**	(4,345)
	(15,989)	(32,432)
Net cash used in operating activities	**(18,118)**	(4,630)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales/maturities of investments	**120,152**	99,537
Purchases of investments	**(108,771)**	(97,751)
Purchases of fixed assets	**(20)**	(100)
Net cash provided by investment activities	**11,361**	1,686
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from note payable	**12,500**	10,000
Payment of note payable	**(12,512)**	—
Net cash provided by (used in) financing activities	**(12)**	10,000
Net change in cash and cash equivalents	**(6,769)**	7,056
Cash and cash equivalents, beginning of year	**32,446**	25,390
Cash and Cash Equivalents, End of Year	**$ 25,677**	$ 32,446
Supplemental Information:		
Income taxes paid	**$ 451**	$ 305
Interest paid	**$ 141**	$ —

See Notes to Consolidated Financial Statements.

2009 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 uses investment portfolio managers to manage the investment portfolio. Such portfolio managers are supervised by the Association and its managers. 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 ASC 820 – Fair Value Measurement and Disclosure (previously SFAS No.157 "Fair Value Measurements") ASC 820 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, Loss Adjustment Expenses and Unreported Losses – 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 likely.

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.

Recent Accounting Pronouncements – In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162," which established FASB Accounting Standards Codification (the "Codification" or "ASC"). The Codification became the single source of authoritative accounting principles in preparation of financial statements in conformity with GAAP. Prospectively, only one level of authoritative GAAP will exist, excluding the guidance issued by the SEC. All other literature will be non-authoritative. The Codification did not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative guidance, by particular topic, using a consistent structure. The Codification was effective on a prospective basis for periods ending after September 15, 2009. As the Codification did not change existing GAAP, the adoption of the Codification did not have an impact on our financial condition or results of operations. However, the adoption of the Codification did change our references to GAAP accounting standards.

In April 2009, the FASB issued ASC 320-10-65, "Debt and Equity Securities — Transition and Open Effective Date Information" (previously FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary-Impairments"). ASC 320-10-65 requires entities to separate an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management believes the Association does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its amortized cost basis. If management concludes a security is other-than-temporarily impaired, ASC 320-10-65 requires that the difference between the fair value and the amortized cost of the security be presented as an other-than-temporary-impairment charge within earnings, with an offset for any noncredit-related loss component of the other-than-temporary-impairment charge to be recognized in other comprehensive income. In addition, ASC 320-10-65 requires that companies record, as of the beginning of the interim period of adoption, a cumulative effect adjustment to reclassify the noncredit component of a previously recognized OTTI loss from retained earnings to other comprehensive income if the company does not intend to sell the security before anticipated recovery of its amortized cost basis. ASC 320-10-65 became effective for interim and annual periods ending after June 15, 2009. The adoption of ASC 320-10-65 did not have a material impact on our financial position or results of operations.

In May 2009, the FASB issued ASC 855 "Subsequent Events" (previously SFAS No. 165 "Subsequent Events"), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 became effective for financial statements issued for fiscal years and interim or annual reporting periods ending after June 15, 2009. The company has adopted ASC 855 and evaluated events subsequent to December 31, 2009 and through the financial statement issuance date of June 24, 2010. There were no subsequent events that would have an impact on the Association's consolidated financial statements.

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, 2009:				
US Treasury and obligations of other US government corporations and agencies	$ 311	$ —	$ —	$ 311
Obligations of states and political subdivisions	115,468	3,111	266	118,313
Industrial and Micellaneous	3,006	6	—	3,012
Common stocks	56,512	7,909	4,645	59,776
Preferred stocks	133	94	—	227
Other invested assets	9,733	—	772	8,961
Total	**$ 185,163**	**$ 11,120**	**$ 5,683**	**$ 190,600**

	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	6,154	704	569	6,289
Total	$ 199,013	$ 5,438	$ 17,562	$ 186,889

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, 2009. 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, 2009:						
US Treasury and obligations of other US government corporations and agencies	$ 311	$ —	$ —	$ —	$ 311	$ —
Obligations of states and political subdivisions	13,180	(141)	4,691	(125)	17,871	(266)
Preferred stock	—	—	—	—	—	—
Common stock	13,680	(2,125)	9,254	(2,520)	22,934	(4,645)
Other invested assets	9,733	(772)	—	—	9,733	(772)
	$ 36,904	**$ (3,038)**	**$ 13,945**	**$ (2,645)**	**$ 50,849**	**$ (5,683)**

	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 stock	66	(5)	—	—	66	(5)
Common stock	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)

The fair value and amortized cost of available-for-sale debt securities at December 31, 2009 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	$ 12,497	$ 12,583
Due after one year through five years	38,360	39,677
Due after five years through ten years	37,720	38,469
Due after ten years	30,208	30,907
Total	**$ 118,785**	**$ 121,636**

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

	2009	2008
Proceeds form sales of investments	$ 120,152	$ 99,537
Gross realized gains	6,596	4,057
Gross realized losses	8,061	8,716

There were no realized losses from investment being other-than-temporarily impaired recorded at December 31, 2009. There were realized losses in the amount of approximately $440 thousand, which was entirely related to common stock, recorded during the year ended December 31, 2008 that were a result of an investment being other-than-temporarily impaired.

At December 31, 2009 and 2008, United States Government Treasury notes in the amount of $311 thousand and $310 thousand par value, respectively, were deposited with regulatory authorities as required by law.

Fair Value Hierarchy

In accordance with Fair Value Measurement Accounting Guidance, 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 Fair Value Measurement Accounting Guidance, 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.

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, 2009:

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS AS OF DECEMBER 31, 2009

	TOTAL FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
US Treasury and obligations of other US government corporations and agencies	$ 311	$ 311	$ —	$ —
Obligations of states and political subdivisions	118,313	118,313	—	—
Industrial and Miscellaneous Bond	3,012	3,012	—	—
Common stocks	59,776	59,756	—	20
Preferred stocks	227	227	—	—
Other invested assets	8,961	—	—	8,961
Total Investments	**$ 190,600**	**$ 181,619**	**$ —**	**$ 8,981**

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
Total Investments	$ 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, 2009.

	YEAR ENDED DECEMBER 31, 2009		
	COMMON STOCK	OTHER INVESTED ASSETS	TOTAL
Opening balance January 1, 2009	$ 20	$ 6,289	$ 6,309
Total Gain or Losses included in earnings: (realized/unrealized)			
Realized gains (losses)	—	679	679
Change in fair value of other invested assets	—	(907)	(907)
Purchanse or (sales):			
Purchase	—	6,733	6,733
Sales	—	(3,833)	(3,833)
Transfer in (out) of Level 3	—	—	—
Ending balance, December 31, 2009	**$ 20**	**$ 8,961**	**$ 8,981**

	YEAR ENDED DECEMBER 31, 2008		
	COMMON STOCK	OTHER INVESTED ASSETS	TOTAL
Opening balance January 1, 2008	$ 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)
Purchanse or (sales):			
Purchase	—	4,653	4,653
Sales	—	(10,044)	(10,044)
Transfer in (out) of Level 3	—	—	—
Ending balance, December 31, 2008	$ 20	$ 6,289	$ 6,309

4. Other Assets and Liabilities

		2009		2008
Other Assets				
Computer equipment and software - net of accumulated depreciation of $5,483 and $5,184, respectively	$	650	$	928
Receivable for securities sold		137		34
Accrued interest receivable		1,483		1,755
Income tax recoverable		154		—
Prepaid reinsurance premiums		1,185		1,070
Management fee receivable		1,059		1,289
Other assets		5,182		4,960
	$	**9,850**	$	10,036
Other Liabilities				
Accrued expenses		912		719
Liability for securities purchased		1,180		12
Note payable		10,042		10,012
Income tax payable		—		125
	$	**12,134**	$	10,868

An unbilled assessment in the amount of $4.7 million and $4.3 million at December 31, 2009 and 2008 respectively, were recorded as a result of the Association's asbestos-related claims settlement agreement.

On December 31, 2009 and 2008 the Association owed $10 million on a demand line of credit from Deutche Bank Trust Company America ("the credit facility"). During 2009, the Association increased the amount it could borrow from the credit facility from $10 million to $20 million. Interest on the credit facility is calculated using a 3 month LIBOR plus 1 percent, which was stated at an average rate of 1.255 at December 31, 2009. Interest accrued at December 31, 2009 and 2008 was $42 thousand and $12 thousand respectively. Interest expense at December 31, 2009 and 2008 was $172 thousand and $12 thousand respectively.

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:

	2009	2008
Gross balance at January 1	$ 316,182	$ 290,399
Less reinsurance recoverables	91,267	41,252
Net Balance at January 1	**224,915**	249,147
Incurred related to:		
Current year	69,243	66,733
Prior years	6,675	5,531
Total Net Incurred	**75,918**	72,264
Paid related to:		
Current year	11,950	15,744
Prior years	82,693	80,752
Total Net Paid	**94,643**	96,496
Net balance at December 31	**206,190**	224,915
Plus reinsurance recoverables	76,964	91,267
Gross Balance at December 31	**$ 283,154**	$ 316,182

In 2009, loss emergence for prior years increased by $6.7 million. The increase reflects an emergence of $10 million for the 2008 policy year, which turned out to be better than the expected emergence of $10.8 million from the balance of the 2008 policy year ended February 20, 2009. In addition, there was favorable emergence of $3.4 million for policy years 2007 and prior.

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.

	2009	2008
Reinsurance recoverable on unpaid losses	$ 76,964	$ 91,267
Reinsurance recoverable on paid losses	18,172	5,164
	$ 95,136	$ 96,431

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:

	2009	2008
Direct	$ 139,933	$ 143,215
Assumed	9,778	8,759
Ceded	(73,793)	(79,710)
	$ 75,918	$ 72,264

6. Premiums and Assessments

		2009		2008
Premiums written and billed assessments	$	114,986	$	148,983
Change in unbilled assessments		427		(2,745)
Return premiums		(2,019)		(1,512)
Reinsurance premiums ceded		(12,282)		(10,531)
Net premiums and assessments written		**101,112**		134,195
(Increase) decrease in unearned premiums		**2,297**		(2,574)
Net Premiums and Assessments Earned	**$**	**103,409**	$	131,621

In December 2009, an assessment of $15.6 million was levied for the 2009 policy year and is due in two separate installments on July 20 and October 20, 2010, respectively. An unbilled assessment at December 31, 2009 in the amount of $4.7 million was recorded as a result of the Association's asbestos-related claims settlement agreement.

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.

7. Other Operating Expenses

		2009		2008
Management fee	$	12,709	$	13,967
Bad debts		7,509		1,015
Brokerage		10,557		13,797
Other		4,603		9,448
Total Operating Expenses	**$**	**35,378**	$	38,227

8. Commitments and Contingencies

Letters of Credit – At December 31, 2009, the Association had outstanding letters of credit for $59 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.

		2009		2008
Asbestos-Related Claims				
Aggregate gross losses paid to date at December 31	$	8,330	$	7,775
Loss reserves - reported		1,304		1,013
Loss reserves - unreported		3,378		4,042

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 limit 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, the Association recorded additional reserves of approximately $7 million at December 31, 2007. Pursuant with the terms of the Settlement Agreement, the Association has made $2.5 million in payments as of December 31, 2009. This represents a one time $900 thousand payment related to 2006 as well as two payments of $800 thousand related to the 2007 and 2008 years. Additionally, the Association has made another $800 thousand payment in January 2010 related to 2009.

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:

	2009	2008
Statutory surplus, as reported	$ 48,164	$ 36,450
Future assessments receivable up to difference		
between ultimate and present value of losses	(19,037)	(22,314)
Unbilled assessments, net	4,682	4,255
Nonadmitted assets	11,767	9,092
Carrying value of applications software and consultants’ fees	576	829
Provision for unauthorized reinsurance	181	472
Allowance for doubtful accounts	(4,350)	1,212
Unrealized gains on available-for-sale securities	2,850	1,533
Statutory ULAE Adjustment	3,172	3,942
Hydra consolidation adjustment	326	196
Members’ Equity on the Basis of Generally Accepted Accounting Principles	**$ 48,331**	$ 35,667

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 2006/07 policy year was closed on March 31, 2009, 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

	2007–08	2008–09	2009–10
INCOME:			
Calls and premiums – net	$ 97,856	$ 93,596	$ 86,498
Supplementary calls debited	17,932	20,520	—
Capital calls	4,205	—	
Provision for estimated future calls	—	—	—
Investment income	4,642	3,055	1,419
Total Income	**124,635**	**117,171**	**87,917**
EXPENSES:			
Net paid losses	39,627	32,246	10,671
Net pending losses	34,189	40,584	43,454
Undiscounted IBNR	3,188	4,887	13,836
Reinsurance premiums	12,287	9,503	10,372
Other operating expenses	20,979	21,898	18,820
Total Expenses	**110,270**	**109,118**	**97,153**
RETAINED EARNINGS	**14,365**	**8,053**	**(9,236)**
MEMBERS' EQUITY: OPEN YEARS	**$ 14,365**	**$ 8,053**	**$ (9,236)**

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

2007/08	$ 6,475
2008/09	$ 7,354
2009/10	$ 7,595

(b) For the 2009/10 policy years calls and premiums are stated on an earned basis to December 31, 2009. Expenses are stated on an accrued basis for the same period.

CLAIMS OUTSTANDING (INCLUDING IBNR) - OPEN YEARS

	2007–08	2008–09	2009–10
Gross outstanding claims			
Members' claims	$ 36,956	$ 54,561	$ 68,838
Other Clubs' Pool claims	5,362	1,811	9,739
	42,318	**56,372**	**78,577**
Pending reinsurance recovery			
From the Group excess of loss reinsurance	—	3,218	—
From the Pool	1,861	1,055	18,227
Other reinsurers	3,080	6,629	3,061
	4,941	10,902	21,288
Net Outstanding Claims	**$ 37,377**	**$ 45,470**	**$ 57,289**

DEVELOPMENT OF OPEN POLICY YEARS

	2009	2008
Closed Years' Balance, January 1	$ —	$ —
Total income earned	(949)	(8,346)
Net paid losses	44,508	25,358
Net pending losses	(38,807)	(21,662)
Unreported losses (IBNR)	(1,884)	(4,710)
Reinsurance premiums	684	(674)
Other operating expenses	3,703	3,167
Total expenses incurred	8,204	1,479
Unrealized investment gains (losses)	17,560	(19,251)
Transfer from closed policy year 2006/07	12,130	—
Transfer from closed policy year 2005/06	—	9,771
Net change	20,537	(19,305)
Transfer to contingency fund	(20,537)	19,305
Closed Years' Balance, December 31	$ —	$ —
Contingency Fund Balance, January 1	$ 14,612	$ 33,917
Transfer from closed policy years	20,537	(19,305)
Contingency Fund Balance, December 31	35,149	14,612
Open Policy Years' Equity		
2006/07	—	6,701
2007/08	14,365	9,048
2008/09	8,053	5,306
2009/10	(9,236)	—
Total Members' Equity	$ 48,331	$ 35,667
Claims Outstanding (including IBNR) – Closed Years		
Gross pending losses		
Members' claims	$ 93,808	$ 87,784
Other Clubs' Pool claims	12,078	7,058
	105,886	94,842
Pending reinsurance recovery		
From the Group excess of loss reinsurance	375	375
From the Pool	24,901	7,025
Other reinsurers	14,556	12,595
	39,832	19,995
Net Pending Losses	$ 66,054	$ 74,847

(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 noncancelable 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 2009 was approximately $717 thousand. Future minimum rental payments, excluding any sublease income, are as follows:

YEAR		AMOUNT
2010	$	988
2011		779
2012		795
2013		795
Thereafter		2,583
Total	**$**	**5,940**

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, 2009.

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, 2009 the ratio of 15.3% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 15.2% recorded for the five years ended December 31, 2008, an increase of .1%, due mostly to a decrease in premium written during 2009.

UNAUDITED SUPPLEMENTAL SCHEDULES

Statement of Operations and Comprehensive Income Year's Ended December 31, 2009 and 2008

	P&I		FD&D	
IN THOUSANDS	2009	2008	2009	2008
INCOME:				
Net premiums and assessments earned	**$ 97,927**	$ 124,540	**$ 5,482**	$ 7,081
Net investment income	**4,409**	5,110	**247**	291
Realized investment loss	**(1,387)**	(4,825)	**(78)**	(274)
Total Income	**100,949**	124,825	**5,651**	7,098
EXPENSES:				
Losses and loss adjustment expenses incurred	**71,863**	68,549	**4,055**	3,715
Other operating expenses	**33,503**	36,170	**1,875**	2,057
Total Expenses	**105,366**	104,719	**5,930**	5,772
Income Before Income Taxes	**(4,417)**	20,106	**(279)**	1,326
Provision for income taxes	**(190)**	(457)	**(11)**	(26)
Net Income (Loss)	**(4,607)**	19,649	**(290)**	1,300
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized gains (losses) on investments	**16,630**	(18,215)	**931**	(1,036)
Other comprehensive income (loss)	**16,630**	(18,215)	**931**	(1,036)
Comprehensive Income	**$ 12,023**	$ 1,434	**$ 641**	$ 264

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.

UNAUDITED SUPPLEMENTAL SCHEDULES

Losses and Reinsurance Recoverable Years Ended December 31, 2009 and 2008

IN THOUSANDS	2009	2008
NET CLAIMS PAID		
Gross claims paid:		
Members' claims	**$ 174,297**	$ 117,903
Other Clubs' Pool claims	**8,443**	8,287
	182,740	126,190
Recoveries on claims paid:		
From the Group excess of loss reinsurance	**184**	9,185
From the Pool	**80,214**	14,107
Other reinsurers	**7,699**	6,402
	88,097	29,694
Net Claims Paid	**$ 94,643**	$ 96,496
CHANGE IN NET PROVISION FOR CLAIMS		
Claims outstanding:		
Members' claims	**$ 254,163**	$ 288,527
Other Clubs' Pool claims	**28,991**	27,655
	283,154	316,182
Reinsurance recoverables:		
From the Group excess of loss reinsurance	**3,592**	2,135
From the Pool	**46,045**	65,310
Other reinsurers	**27,327**	23,822
	76,964	91,267
Net claims outstanding at December 31	**206,190**	224,915
Net claims outstanding at January 1	**224,915**	—
Change in Net Provision for Claims	**$ (18,725)**	$ 224,915

Board of Directors

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Markos K. Marinakis, Deputy Chairman MARINAKIS CHARTERING INC.

Vassilios Bacolitsas SEA PIONEER SHIPPING CORP.

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Secretary

Joseph E. M. Hughes

As of June 1, 2010

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