2012
Annual Report

THE AMERICAN CLUB

For most of the shipping industry, 2012 was another year of adversity. A weak global economy continued to constrain seaborne trade. An oversupply of tonnage continued to impoverish the freight markets. A demanding regulatory environment continued to complicate commerce. Despite these negative trends, the American Club made progress. While the retirement of older vessels, and their replacement by newer tonnage, placed pressure on pricing, prudent underwriting prevailed. Although Pool exposures remained high, the Club's own claims developed within expectations. Investment returns were good. The Club looks to the future with optimism, committed to providing exceptional support to its Members in these difficult times.

Table of Contents

HIGHLIGHTS

For most of the shipping industry, 2012 was another year of adversity ... Despite ... negative trends, the American Club made progress.

2012 Highlights

- 2012 renewal sees modest year-on-year premium increase as freight market recession persists.
- Tonnage and premium experience pressure in first half, but recover toward year-end: upturn continues into 2013.
- Premium rating levels remain firm despite widespread underpricing of risk: average rates per ton increase into 2013.
- Retained claims shadow 2011 in first half, but trend upward as year-end approaches.
- International Group Pool exposures continue at elevated levels.
- 2009 policy year closed without call in excess of original forecast.
- Funds under investment generate 7.6% return amid volatile markets.
- Eagle Ocean Marine fixed premium facility continues to gain market share.
- 10% increase in premium levels across all classes ordered for 2013: Club and Pool retentions increase: market reinsurance costs escalate.
- Free reserves experience small decline at year-end: values per ton remain solid: first quarter 2013 surplus shows significant improvement.

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, 2012.

The Year in Review

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

The Annual Meeting of Club Members took place in New York City on June 21, 2012. At that meeting, all the Directors who had presented themselves for re-election were duly re-elected to serve for a further twelve months.

At the Annual Meeting of the Directors, which took place immediately after 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.

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 2012. Two of the meetings took place in New York. In September, 2012, the Directors met in Houston and, in addition to their regular duties, had the pleasure of hosting a reception for local Members, and the Club's many other friends, from Houston and the US Gulf.

During these meetings of the Board, a wide range of matters was considered. They included policy year accounts, and the closing of relevant years, the settlement of claims of the Club's Members, including omnibus clause references, matters relevant to the Club's membership of the International Group of P&I Clubs, including the development of Pool claims, reinsurance, investment policy, the outcome of renewal negotiations, developments in global regulation affecting shipping, and the implementation of other political initiatives, as well as many other subjects relevant to the Club's affairs.

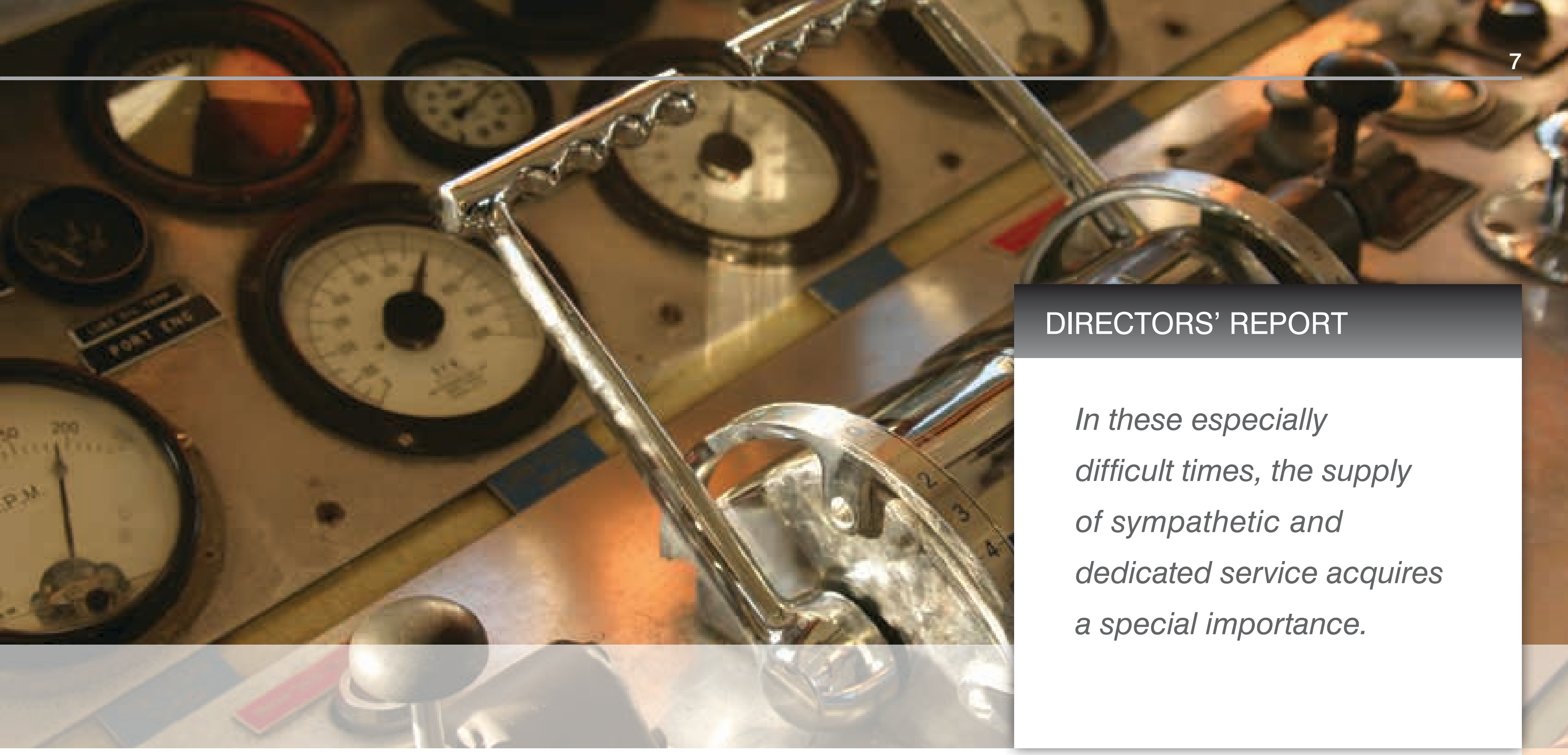
The period under review saw the formal closing of the 2009 policy year, without contribution in excess of originally estimated total premium, as of June 30, 2012. The deficit for the year was balanced by a transfer from the Club's contingency fund.

In Circular No. 33/11 of November 18, 2011, Members were informed of the Club's premium policy for 2012. The Circular communicated the Board's decision to apply a 5% general increase for 2012, any additional costs of the Club's reinsurance arrangements for the year to be charged separately.

For 2013, a general increase of 10% was ordered across all classes of the Club's business. For P&I entries, all estimated total premium was ordered to be debited in four equal installments during the calendar year. FD&D premium was to be debited in two equal installments.

As to release calls, that for 2010 was reduced, in November 2012, to 5%, that for 2011 to 15%, while the release call margins for 2012 and for 2013 remain at 20%, all figures being over and above the currently estimated total premium for the years in question.

The Club's total funds under investment grew during 2012. Despite continuing market uncertainty, the Club realized a 7.6% return on its portfolio. Equities returned 14.6% and the fixed income sector 4.1% over the period.



DIRECTORS' REPORT

In these especially difficult times, the supply of sympathetic and dedicated service acquires a special importance.

Given the volatility of the equity markets, the policy established toward the end of 2011, being to move a larger part of the Club's portfolio into fixed income investments, was further progressed during 2012.

The Club's year-end GAAP and statutory surpluses, at $54.2 million and $63.8 million respectively, are lower than those recorded at the end of 2011. This is partly due to deterioration of claims in earlier years, but also to continuingly high International Group Pool exposures. There were, in addition, two large casualties toward the end of the year, as well as some inflation in the cost of retained claims. The incidence of the latter, however, remained broadly stable year-on-year. Also, as mentioned in the Report of the Managers, there was some attenuation of premium volumes during the period.

The Club continued to benefit from meetings of the Finance and Audit, Claims and Risk Management, and Safety and Environmental Protection Committees during the year. Under the guidance of the latter, further editions of ***Currents*** – the Club's in-house newsletter – were published, and other important initiatives undertaken. The Managers submitted a five year business plan to the Board at its meeting in September. In elaboration of this, a marketing plan covering the same period was submitted as a further policy document at its meeting in November.

Several important initiatives proposed in the business plan are being pursued. They will have a significantly positive effect on the Club's competitive position going forward, and will be the subject of further reports as events unfold.

As reported last year, and as part of a longer-term intention to diversify its activity, the Club became engaged, in July 2011, as primary insurer of the Eagle Ocean Marine (EOM) facility. This offers fixed premium P&I and FD&D cover for the operators of smaller ships in local and regional trades outside the United States.

Managed by Eagle Ocean Agencies, Inc., a sister company of Shipowners Claims Bureau, Inc., the facility has continued to make good progress. The Club's participation, supported by a quota-share reinsurance program at Lloyd's and elsewhere, has added to the range of services available to both Members and the market at large. It is pleasing to note that EOM has grown its business respectably over the recent past.

As was the case in 2011, 2012 was a highly challenging period – not least for shipowners themselves. Clubs do not exist in a vacuum independent of their Members. Recent years have demonstrated this obvious truth. Nevertheless, the American Club continued to make good progress during the period, and your Directors remain optimistic as to the future.

In closing, your Directors thank all Members for their continuing support of the American Club, support which, as ever, is not taken for granted. It must continue to be earned. In these especially difficult times, the supply of sympathetic and dedicated service acquires a special importance.

Your Directors will continue to work to ensure, in close cooperation with the Club's Managers, that Members' expectations in this regard are always fulfilled – and preferably exceeded – in the Club's continuing pursuit of excellence over the years ahead.

REPORT OF THE MANAGERS

The American Club continued to make progress in 2012, despite a very difficult business environment.

Global trade grew modestly during the year, constrained by persistent macroeconomic uncertainties. According to the latest World Trade Organization statistics, trade growth fell to just over 2% in 2012 – down from over 5% in 2011. The agency predicts sluggish expansion in 2013, at around 3.3%, as the economic slowdown in Europe and elsewhere continues to inhibit demand.

Even if this unpromising backdrop were not enough, the unremitting oversupply of tonnage in 2012 prolonged the recession in the freight markets. Nevertheless, despite these systemic challenges, the American Club was able to keep pace with the expectations of its Members, and continued to advance its longer term goals.

Entered Tonnage, Underwriting and Reinsurance

The 2012 renewal took place in the context of a harsh shipping climate which failed to improve as the year developed.

The Board had ordered that a 5% general increase should apply to expiring advance calls for 2012 across all classes of the Club's business. Mutual premium was redefined as estimated total premium for the year, subject to a zero supplementary call forecast.

For mutual P&I entries, all estimated total premium was ordered to be debited in five equal installments, the fifth installment being deferred for payment in May, 2013. FD&D premium was to be debited in two equal installments during the calendar year, the release call for both classes being set at a margin of 20% over and above estimated total premium.

The 2012 renewal saw an overall cash increase, year-on-year, of approximately 2.75% which, when the monetary value of higher deductibles and other adjustments to insurance conditions are taken into account, implied an overall uplift of about 3.5% against a target of 5%. Although there was a slight reduction in renewing tonnage, a year-on-year gain of 8% for P&I was encouraging.

During the course of the year, however, disposals began to increase. The dry bulk sector was particularly affected. In consequence, both tonnage and premium volume suffered some attenuation during the first six months of 2012.

There were also new entries attaching over this period, as Members' new building programs saw the delivery of new units into the Club's portfolio, but the net effect was negative. Premium applying to newer tonnage was also lower than that for older units, creating a concomitant decline in annualized revenue.

It is gratifying to note that these trends have begun to reverse themselves during the opening months of 2013. Both tonnage and premium have grown since the beginning of the new policy year. As of May 31, 2013, tonnage across all classes of the Club's business had increased by 7% over that recorded at the February renewal. This appears to reflect both growing activity in the secondhand markets, and an increase in the attachment of newbuildings over the period.

For 2013, a general increase of 10% was ordered across all classes of the Club's business. As in the case of the previous year, mutual premium was defined as estimated total premium for the year, but to be debited in four equal installments during 2013.

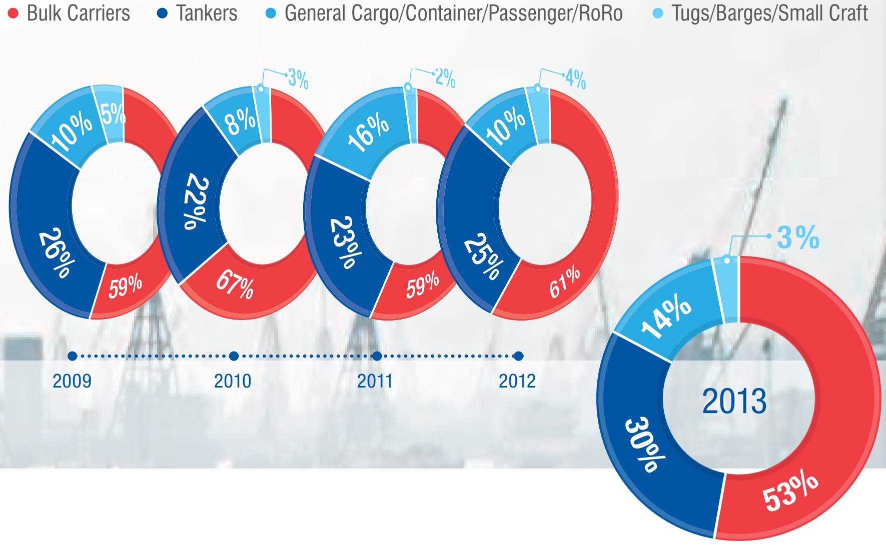
FD&D premium for 2013 was ordered to be debited in two equal installments during the calendar year, the release call for both classes being set at a margin of 20% over and above estimated total premium. The same increase was also determined to apply for charterers and other fixed premium entries, the additional costs of the Club's reinsurance arrangements to be added separately.

At the conclusion of the 2013 renewal, the year-on-year cash increase in estimated total premium for P&I on renewing P&I business was about 6%, exclusive of additional reinsurance costs. As in the case of previous years, there was some setting-off of premium increases against higher deductibles and other variations in insurance terms.

Taking this into account, the overall increase in year-on-year estimated total premium for the P&I portfolio was approximately 8%, by contrast with the 10% target. For FD&D entries, the overall increase was 7%, also against a 10% target.

At the commencement of the 2013 policy year, the dry bulk sector, at 53% of the total, remains the largest constituency of the Club's entry by reference to tonnage. This figure compares with 61% a

MEMBERS' TONNAGE BY VESSEL TYPE



CLUB ENTRIES

Both tonnage and premium have grown since the beginning of the new policy year.

year earlier. General cargo, passenger, container and RoRo vessels account for 14% of the total (10% a year earlier), while 30% of the total comprises tankers (25% twelve months ago). The tug, barge and small craft sector, at 3% of tonnage, is the smallest part of the total. However, it is much larger by reference to premium and unit numbers. The breakdown of Members' tonnage by vessel type is set out in the above chart.

As to domicile of management, Europe and Asia remain the largest regions in terms of tonnage, each comprising 42% of the total. The entry of Members from North America – predominantly from the United States – has remained relatively constant over the years, the figure for 2013 now being approximately 13% by comparison with 11% a year earlier, with entries from the rest of the world accounting for a further 3%. A breakdown of the Club's tonnage by membership domicile is set out on page 15.

In premium terms the picture is somewhat different. The three main constituencies of the Club's business are more closely aligned in this respect. Members domiciled in Europe contribute about 30% of total premium, those from Asia about 30%, and those headquartered in North America about 35%.

On the reinsurance front, the Club's arrangements during 2012 were broadly unchanged from those of 2011.

Participation in the International Group of P&I Clubs' reinsurance program continued, entailing a retention of $8 million per claim, and sharing in the Group Pool for a further $52 million over and above that figure.

For 2012, a change was made in the structure of the Pool. Under the new design, clubs' contributions to the lower Pool layer from $8 million to $45 million were to be assessed on the traditional tripartite formula (tonnage, premium and claims), but for the upper Pool, from $45 million to $60 million, 10% was to be borne exclusively by the club bringing the claim, and 90% shared between all clubs on a tonnage basis. Hydra continued to reinsure the $30 million excess of $30 million Pool layer, but only as to 90% of the top $15 million tranche.

These arrangements have continued into 2013, with the important exception that the Pool ceiling has increased from $60 million to $70 million. Within the additional $10 million layer, 5% is to be borne by the club bringing the claim, the remaining 95% being shared among all clubs on a tonnage basis. Hydra's involvement as reinsurer continues as to 95% of this top $10 million tranche. In addition, Hydra reinsures the Pool's exposure to an expanded 30% vertical coinsurance of the first layer of the Group's market placement for 2013. A schematic of the Group's current arrangements is set out on page 19.

Another important change for 2013 is the increase in the individual retention of Group clubs from $8 million to $9 million. This has had implications for the design of the American Club's reinsurance of its retained exposure, discussed below.

The changes to the Pool described above occurred against the background of a difficult renewal of the International Group's general excess of loss reinsurance contract, particularly on the heels of rising estimates of the ultimate cost of the RENA and COSTA CONCORDIA claims which occurred in 2011.

These losses, coupled with general concerns regarding the increased cost of major casualties, and in particular wreck removal and Special Compensating P&I Clause (SCOPIC) exposures, led the Group's reinsurers to seek a significant rise in premium. The overall rise finally agreed resulted in rate increases for all categories of vessel type for 2013.

These increases were assessed in accordance with the Group's general objectives as to cost allocation, principally that of moving toward a claims to premium balance for each vessel type over the medium to long term. Overall, the rate increases were in excess of 30%, with the different categories of tonnage contributing in conformity with the objectives mentioned above. Dirty tankers were allocated an increase of just over 16%, clean tankers just under 16%, dry cargo vessels nearly 39%, and passenger ships just over 125%.

Rates per gross ton included an allocation for excess P&I war risks cover. As in previous years, this continues in 2013 at a limit of $500 million in excess of amounts recoverable under an owner's underlying war risks policies, subject to a minimum of a vessel's proper hull value or $100 million, whichever is the lower in individual cases.

As to the protection of its retained exposure, the Club has continued to reinsure its retention for 2013 through an excess of loss arrangement for $4 million excess of $5 million placed with Lloyd's underwriters and Partner Re.

The Club has also extended the reinsurance of its exposure to the lower Pool with Hannover Re, being the second year of a three year contract. The arrangement has provisions in regard to cancellation, commutation and profit commission which provide flexibility to the Club in managing the contract, the purpose of which is to reduce high exposure points of the Pool over time, given the unpredictable spikes to which the Pool is prone.

The American Club continued the diversification of its activity during 2012 through the renewal, in the middle of the year, of its participation in the Eagle Ocean Marine (EOM) facility – a fixed premium program for the insurance of P&I and FD&D risks for smaller ships in local and regional trades, principally in the Far East, Europe, Africa and other areas outside the United States.

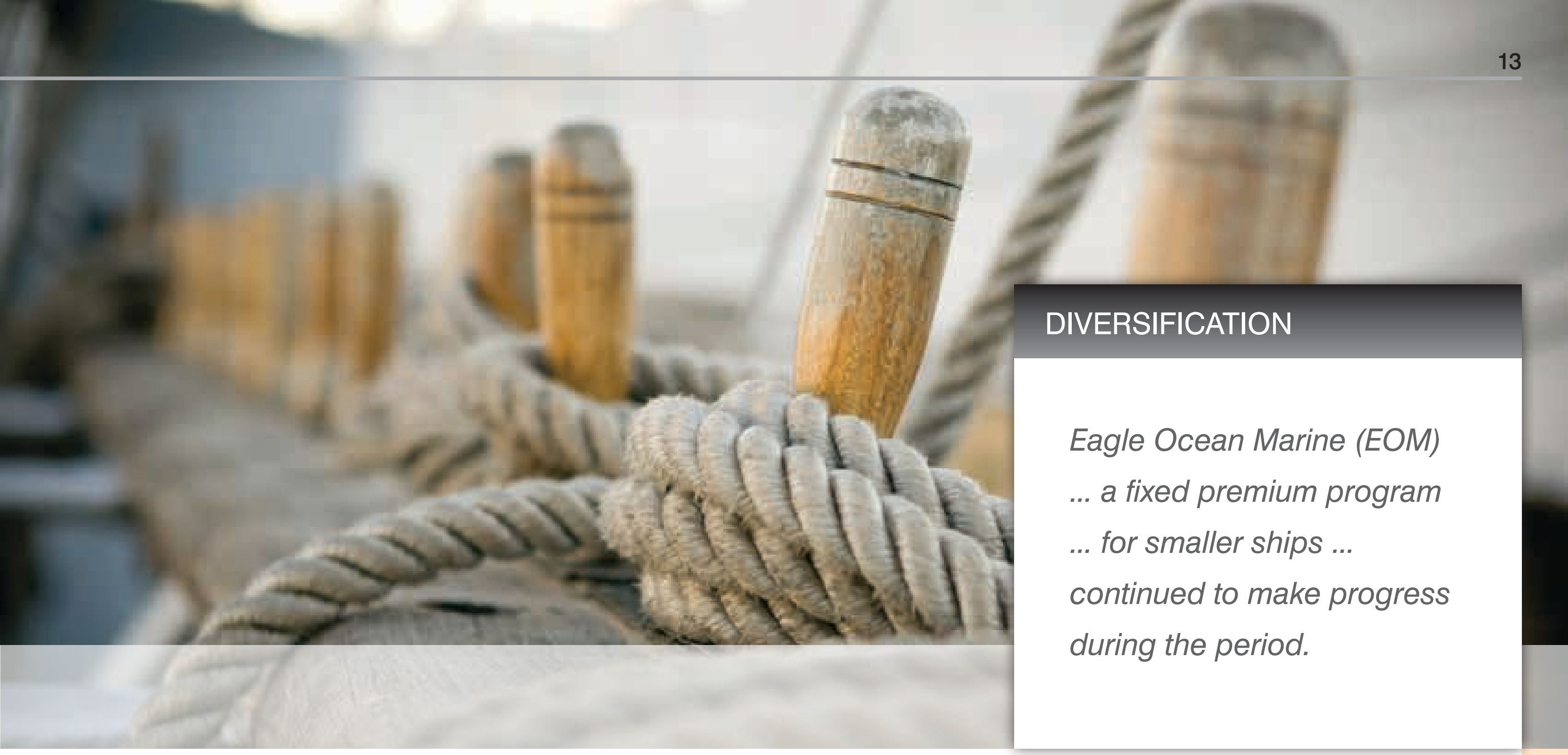
The facility – managed by Eagle Ocean Agencies, Inc., a sister company of the Managers – continued to make progress during the period. Total premium volume for the 2012/13 facility year is projected to be about 50% higher than that of its first year, while claims appear to be developing favorably. The Club's participation is supported by a quota-share reinsurance program at Lloyd's. It enhances the Club's outlook for continuing diversification over the years ahead.

On the rating front, it was noted last year that S&P had given the Club an upgrade in November 2011 from BB to BB+ with a stable outlook. This rating continued during the period under review.

The Club's year-end surplus was lower than that recorded at the end of 2011, as commented upon in the Report of the Directors. As explained there, this was due to several factors including deterioration of claims in earlier years, as well as a conservative outlook in regard to IBNR development for 2012, particularly in light of two major claims which occurred toward the end of the year.

However, as of the end of the first quarter of 2013, the position has improved substantially as the full policy year premium for 2012 comes to be recognized and the solid investment returns which the Club has enjoyed over the period strengthens its financial results.

As of March 31, 2013, the Club's statutory surplus had increased by over 9% since year-end 2012 to nearly $70 million. Its GAAP surplus had increased even more - by fully 13% over the three months in question. Expressed as GAAP free reserves per gross ton entered in the Club's P&I Class, the December 31, 2012 figure of $3.50 per gross ton increased to $4.00 per gross ton as of March 31, 2013, a 14% rise.



DIVERSIFICATION

Eagle Ocean Marine (EOM) ... a fixed premium program ... for smaller ships ... continued to make progress during the period.

Supplementary and Release Calls

The period under review saw the formal closing of the 2009 policy year, without call in excess of the original forecast, as of June 30, 2012. It is expected that the 2010 policy year will be closed, in substantial surplus, in June, 2013. Such surplus will be credited to the Club's contingency account.

As has been the case since 2010, it is pleasing to note that no unforecast additional calls were levied for any year during the course of 2012. So far as release calls are concerned, the margin for the 2010 policy year was reset in November, 2012 to 5% over and above currently estimated total premium for the year. Similarly, the margin for 2011 was reset at 15%. Release call margins for 2012 and 2013 remain at 20%.

Under the terms of the latest version of the International Group Agreement (IGA 2013) all Group clubs have undertaken to provide a statement, at least annually, of the risk-based factors by reference to which release calls are calculated.

The Managers, in consultation with the Board, keep release call levels under regular review. Current levels, together with the requisite statement of the factors outlined above, will be available to Members at relevant times during the months ahead and in future years.

Finance and Investments

The investment landscape during 2012 exhibited many of the same features which had characterized the previous twelve months, and which have figured more or less permanently since the onset of the great recession in 2008.

The accommodative posture of the US Federal Reserve and other central banks remained a dominant, stabilizing theme in global monetary policy, but the enduring problems of the Eurozone generated periodical turbulence as the year progressed. Against this background, growing uncertainty as to economic prospects in China, linked to fragile growth in the United States, amplified by concerns about Europe, induced continuing caution among investors for much of the period.

However, as the political climate in the United States became less febrile following the re-election of President Obama in November 2012, with signs that a greater degree of political compromise might thereafter be possible, the final quarter of 2012, and the opening months of 2013, saw a strong rally in US equities.

This was assisted by further quantitative easing by the Fed, and by employment and housing indicators which hinted at a sustainable improvement in the US economy. These trends gave impetus to what has been described by some commentators as a great rotation by investors from cash and fixed income into risk-based securities offering higher returns.

INVESTMENTS

It is gratifying to report that the opening months of 2013 have started well ... as of April 30, the portfolio had returned 3.7% year-to-date.

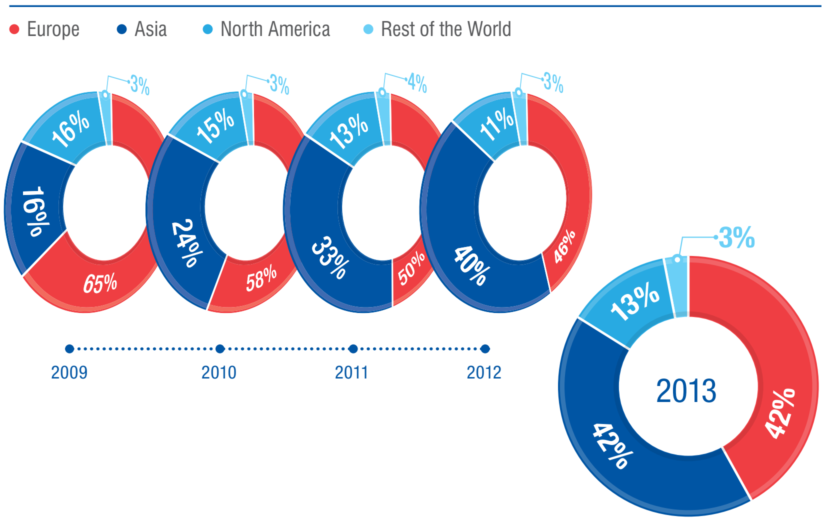
Whatever their cause, the Club's portfolio benefited from these developments, returning 14.6% on its equity holdings in 2012. Its fixed income portfolio recorded a gain of 4.1% during the year. Overall, the portfolio returned 7.6%, a figure in line with its asset allocation benchmark.

Under the guidance of the Finance and Audit Committee, assisted by the Club's investment advisors, Merrill Lynch, the Board implemented a policy during 2012 aimed at moderating the volatility of its portfolio. This entailed the gradual reduction of its equity commitments during the year, a trend which has continued, incrementally, into 2013.

It is gratifying to report that the opening months of 2013 have started well – particularly for risk assets. During the four months to the end of April, the Club's equity investments had returned nearly 12%, while its fixed income performance was a little under 1.5%. Overall, as of April 30, 2013, the portfolio had returned 3.7% year-to-date.

How these trends develop for the remainder of 2013 remains to be seen. There are grounds for cautious optimism that equities will continue to make progress. It is also likely that volatility will persist, particularly in light of slow US economic growth, concerns about when and how the Fed will begin to unwind its policy of quantitative easing, continuing uncertainty in Europe, a Chinese economy in transition, and several background geopolitical concerns.

MEMBERS' TONNAGE BY MANAGEMENT DOMICILE



Claims

In a manner similar to that of the previous year, the Club's claims experience during 2012 emerged in two distinct phases.

Coming off a relatively benign 2011, the level of the Club's retained claims showed only a modest increase over the exceptionally good 2010 results during the first nine months of 2012. However, the final three months saw two major claims – the sinking of the HARITA BAUXITE off the Philippines, and the oil spill of the BOSTON No. 30 at Staten Island, New York.

Despite these negative developments, 2012 is still developing within original projections. By reason of this, the year is emerging as the third lightest period for the Club's retained claims over the last decade.

Only seven claims exceeded $1 million in 2012, 97% of all claims by number falling below an attritional ceiling of $250,000 per incident. While the aggregate total for 2012 is currently estimated to be higher than that for 2011, the overall trend which began so favorably in 2010 continues to develop within expectations.

2012 was different from earlier years in that pollution and collision claims formed a somewhat larger portion of the total by comparison with those arising in relation to cargo, third party property damage, personal injury and illness and death claims.

As to collision claims, 2012 was the most expensive year since 2008 with 66 incidents to date, and a total incurred value of $8 million. Pollution incidents accounted for some 20% of claims development (to date) in 2012, the BOSTON No. 30 being the largest single exposure of this kind.

There was a reduction in the number of cargo incidents notified during the year, the figure of 172 being the lowest at a similar stage of development for the past six policy years. Encouragingly, the average cost per claim – at $40,000 per incident – was lower than that of similar claims in 2010 and 2011 by margins of $13,000 and $19,000 respectively.

The incidence of claims in respect of illness, injury or death to crew, passengers, stevedores and other third parties was broadly the same as that of previous years. However, the average cost of injury claims decreased to $28,000 per case by comparison with $60,000 in 2010, $58,000 in 2009 and $39,000 in 2011.

Experience within the Club's Class II (Freight, Demurrage and Defense) insurance, continued to reflect the distressed condition of the freight markets, and the counterparty risks this has created for Members everywhere. As with previous years, the vast majority of FD&D matters in 2012 involved unpaid freight or hire.

While the Club's experience of claims for its own account in 2012 was, if not as benign as that recorded for 2010 and 2011, nevertheless within expectations, the same cannot be said as to claims shared by the International Group clubs under the pooling agreement to which the American Club is a party.

A number of major incidents affected the Pool during 2012, the year exhibiting signs of being at least as expensive as 2011. That year featured two of the largest claims on record – the COSTA CONCORDIA and the RENA – the former case being particularly difficult as the wreck removal becomes ever more expensive.

CLAIMS

A number of major incidents affected the Pool during 2012, the year exhibiting signs of being at least as expensive as 2011.

The outlook for the 2012 Pool, albeit at an early stage, is not promising. As of February 20, 2013, there were 20 claims notified to the International Group as being within the pooling layer with an aggregate value of $369 million. This compares with 12 claims totalling $231 million at the same stage of development a year earlier.

On the regulatory front, the demands placed upon the shipping industry continued to grow. New regimes – some of which have already come into effect – include the implementation of MARPOL Annex XI's air emission regulations, and the North American Emissions Control Area (ECA), regulations of the People's Republic of China on the Prevention and Control of Marine Pollution from Ships, the European Union Passenger Liability regime (PLR), the 2006 Protocols to the Athens Convention, and the 2006 Maritime Labor Convention on Seamen's Rights.

Each of these – and other regulations likely to come into force over the years ahead – will expand shipowners' exposure to risk across every sector of the maritime community. In an increasingly demanding environment, the ability of the Club to serve its Members with dedication and decisiveness on the claims front will remain of paramount importance in the fulfillment of its mission.

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 during 2012. As is perennially the case, the Group faced a number of challenges over the year. The diversity of these challenges, and the issues addressed by the Group, remained as wide as ever.

2012 saw the closure of the EU Commission's investigation into the International Group and its member clubs. Initiated in 2009, complying with the case-team's requests entailed considerable time and effort, both within clubs individually and at Group level, as all parties dedicated themselves to the fullest cooperation toward a sensible conclusion. In the result, the positive outcome is a recognition of the strength and importance of the cover provided through the mutual system, embodied by the clubs individually and the Group as a whole.

International trade sanctions continued to pose challenges for the shipping industry and the clubs. They also entailed the considerable engagement of the International Group. The global sanctions landscape – increasingly focused on marine insurance arrangements – will likely become more complex over the years ahead.

2012 saw a smaller number of attacks by pirates in the Gulf of Aden, Horn of Africa and elsewhere in the Indian Ocean. However, while activity in the former area has declined, there have been a number of incidents in the Gulf of Guinea – and in other West African waters – involving significant threats and violence against crew. The International Group continues to support industry-wide efforts to develop guidance for shipowners in dealing with the growing threat of piracy in these regions.

On December 31, 2012, the EU Passenger Liability Regulation – commonly referred to as the PLR – came into force across member states. As notified to Members through several Circulars over recent years, the PLR incorporates into EU law the key provisions of the 2002 Protocol to the Athens Convention, even though the latter has yet to come into force.

Although the International Group decided not to mutualize primary war risk cover – and, therefore, does not have a collective solution to the provision of war risk cover and certification required under the PLR – there has nonetheless been coordination among clubs whose members require such certification in order to facilitate individual solutions. In parallel with this, the Group began active engagement during 2012 with EU member states in resolving certification issues. This effort continues.

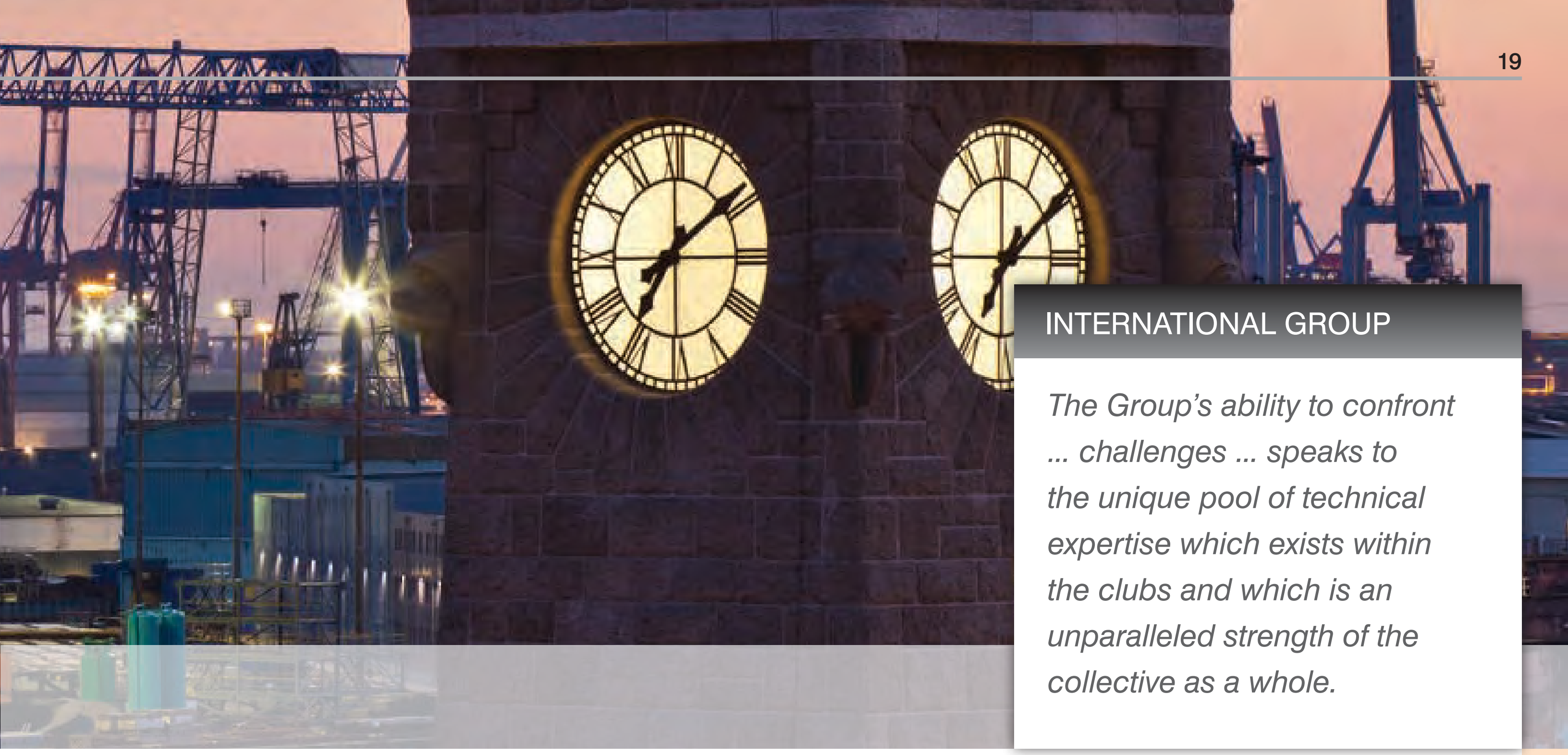
In addition to these various initiatives, the Group was engaged throughout 2012 in the work of the International Maritime Organization (IMO) and the IOPC Funds, in both of which the Group has consultative status.

Specifically, the Group played a significant role in the IMO Legal Committee consideration of increases to shipowner liability limits under LLMC 96 and also on the issue of cargo liquefaction. As mentioned elsewhere, the latter subject continues to be of considerable concern for the industry as a whole.

The above issues represent only a portion of the wide range of diverse issues which continue to occupy the Group going forward. There will undoubtedly be fresh challenges to address in the coming year.

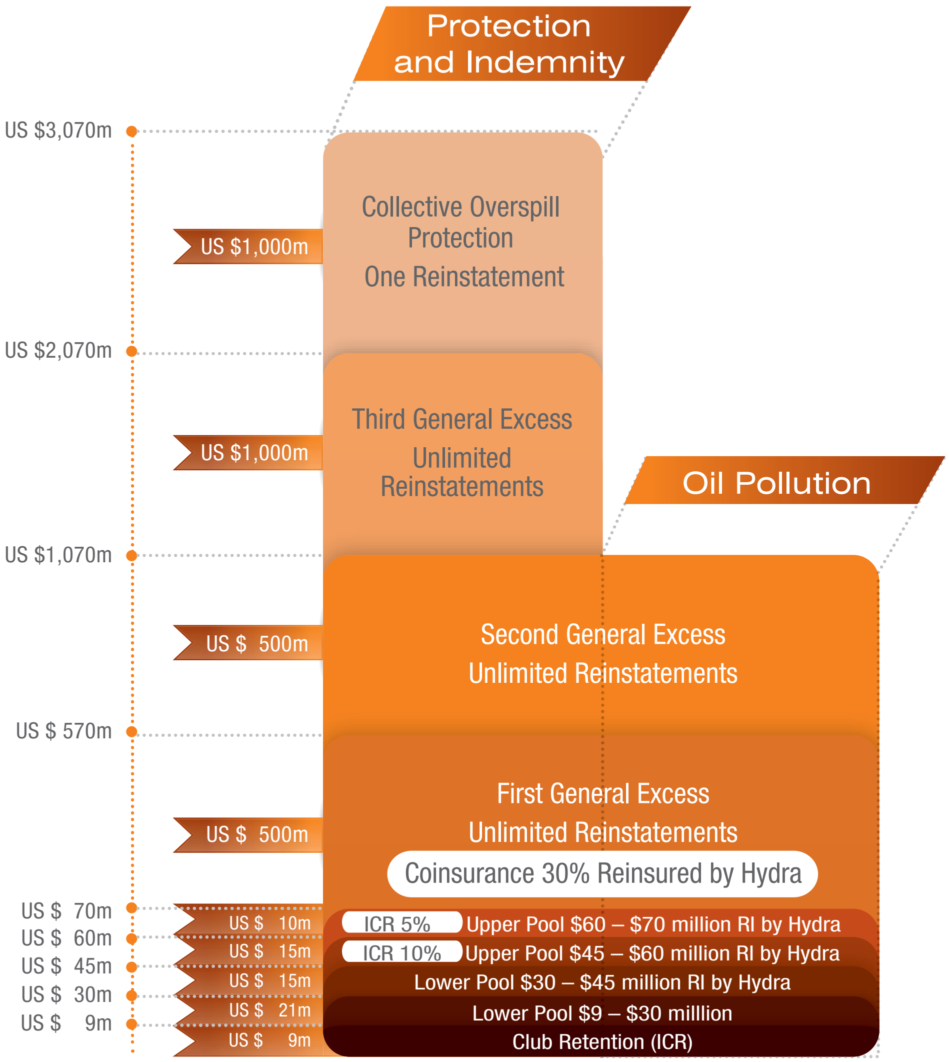
The Group's ability to confront these challenges to such telling effect speaks to the unique pool of technical expertise which exists within the clubs and which is an unparalleled strength of the collective as a whole. This strength exists in conjunction with, and reinforces, the robust financial security embodied in the Pooling Agreement and the Group's market reinsurance arrangements.

These special characteristics of the Group make it well placed to address the many further issues in which its voice will be required in promotion of the maritime community's interests at large over the years ahead.



INTERNATIONAL GROUP

The Group's ability to confront … challenges … speaks to the unique pool of technical expertise which exists within the clubs and which is an unparalleled strength of the collective as a whole.



SCHEMATIC OF INTERNATIONAL GROUP REINSURANCE
ARRANGEMENTS FOR OWNERS' ENTRIES 2013

Safety and Loss Prevention

The development and enhancement of safety and loss prevention initiatives continued to be an American Club priority during 2012.

The Club's chief activities in this area comprised the surveying of vessels, pre-employment medical examinations and the dissemination of e-learning material for a variety of loss prevention purposes, including compliance with international and US regulatory requirements.

On the survey front, the number of inspections declined by about 14% during 2012 by comparison with the previous year. This was due to an increase in older vessels being sold for scrap and being replaced by newer vessels (typically less than ten years of age) in respect of which entry surveys are not, in the ordinary way, mandated.

The Club's pre-employment medical examination (PEME) program continued to add loss prevention value in its ninth year of operation. Its primary objective is to ensure, through coordinated medical screening, the elimination of preventable illness and death claims. The Club expanded its network of clinics which currently embrace Bulgaria, India, Indonesia, Latvia, the Philippines, Poland, Romania, Russia and Ukraine.

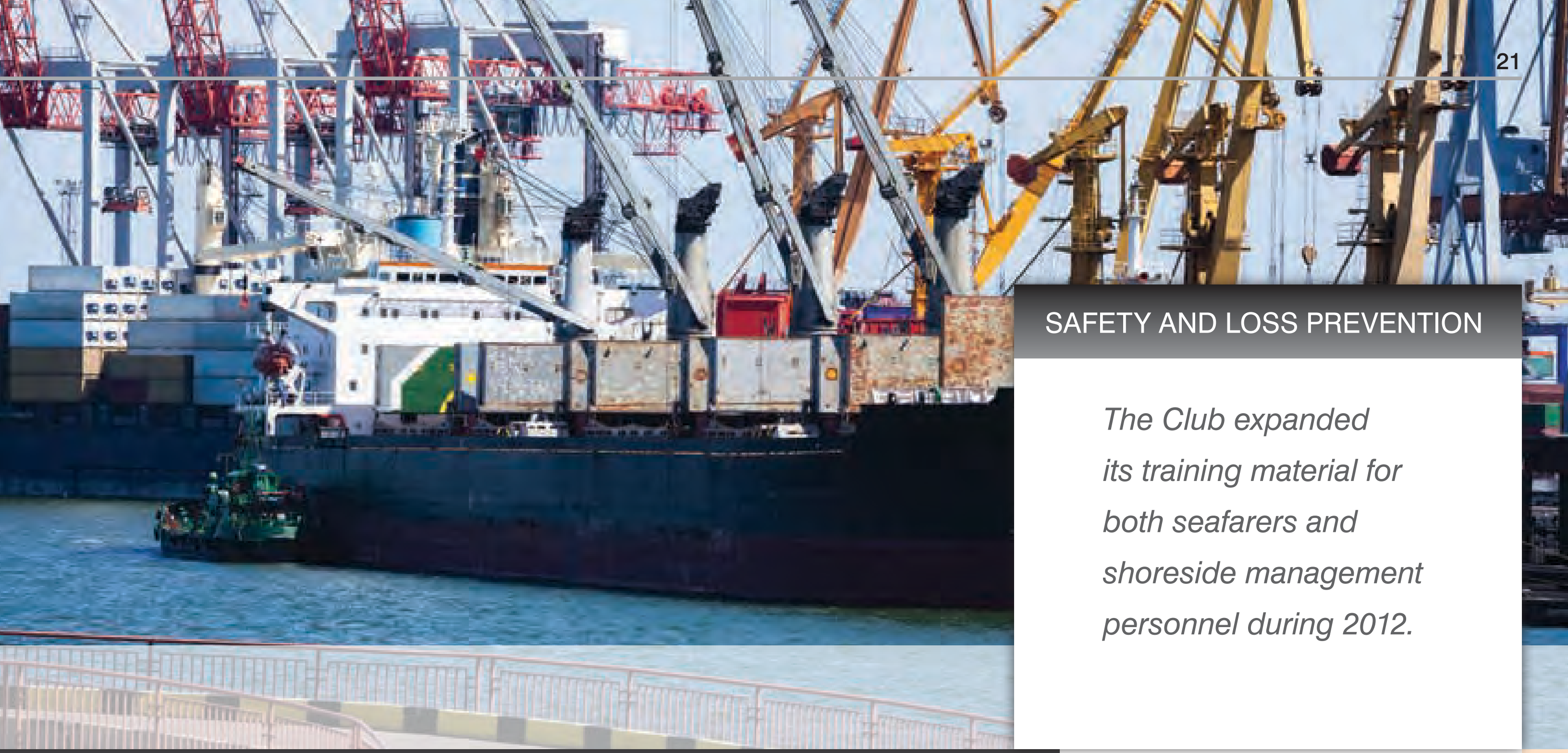
The Club expanded its training material for both seafarers and shoreside management personnel during 2012. To this end, the Club continued its cooperation with IDESS Interactive Technologies, Inc., in the development of e-learning capabilities on ship safety and environmental protection.

In December 2012, the Club released the new modules of the ***Clean Seas: Complying with MARPOL 73/78*** web-based e-learning tool. This covered Annexes II and III on noxious liquid substances in bulk, and harmful substances carried in package form, respectively. Through this initiative, Members now have access to five training modules for Annexes I through V of MARPOL 73/78.

More recently, a training module entitled ***The Case of the Invisible Assassin*** has been produced. As a companion module to ***The Case of the Silent Assassin***, delivered in 2011, it targets entry into enclosed spaces on bulk carriers. It is the first in a series of e-learning modules focused on bulk carrier safety which are due for delivery during 2013.

The Club's practice of conducting workshops and training seminars continued during 2012. Circulars, Member Alerts and the Club's in-house publication, ***Currents***, were also used to disseminate important loss prevention messages.

Special attention was given during the year to the carriage of nickel ore from Indonesia and the Philippines. The liquefaction of nickel ore cargo has become a subject of particular concern to the shipping industry. Other cargoes are also problematic in this respect, notably iron ore fines, bauxite and copper concentrates. The Club remains committed to ensure that such cargoes and other difficult commodities are handled in accordance with the best – and safest – practice.



The Club expanded its training material for both seafarers and shoreside management personnel during 2012.

Building on the past, welcoming the future

An anemic global economy, together with the parlous state of the freight markets, make an optimistic view of future business conditions hard to justify at present.

Current challenges resonate forcefully with the P&I clubs because, owing to their design, governance and operating practices, they are more connected to the underlying fortunes of the shipping industry than most marine insurers.

This is as it should be. Mutuality permits clubs collectively to respond to the financial difficulties afflicting their members individually with understanding and sensitivity. International Group clubs are making every effort to do so, but in a manner which must take account of the larger financial interests of the clubs as entities in themselves.

Despite today's stresses, there are grounds for optimism. Absent any geopolitical shocks, shipping will surely emerge from the current slump over the next few years as global trade expands, and the imbalance of tonnage supply and demand gradually disappears.

This should also create a better environment for risk pricing which, when combined with a more reliable investment climate, should also lead to more benign operating conditions for the clubs and other insurers.

The American Club took part in a P&I industry debate in Greece at the beginning of 2013, in which several other Group clubs participated. The Club argued for the motion that the P&I industry of 2023 would look broadly similar to that of today.

This should not be taken to suggest that the American Club takes a complacent view of the future. On the contrary, the thrust of the Club's argument was that the tried and tested virtues of the International Group system – a preeminent consumer collective – will meet the challenges of the next ten years in a manner equal to the expectations of the industry it serves.

These challenges will reveal themselves in several ways. It is likely that rising claims will impel underlying price escalation; that costlier reinsurance and greater risk absorption will add to club overhead; that increasing service and regulatory demands will enlarge administrative expense; that proliferating liability regimes will amplify exposure; that intensifying oversight of club activity will weigh on both governance and management.

In response to these trends, burgeoning global regulation will magnify the value of the International Group's collective role; product diversification will enrich the human capital available to clubs and enhance the scope for operational economies. Above all, the International Group model will remain well designed to confront these new business conditions, and able to meet the future with confidence and energy.

Despite current difficulties, the prospects for the marine industry are good. A recent report by Lloyd's Register of Shipping, QinetiQ and the University of Strathclyde, entitled ***Global Marine Trends 2030***, promotes a positive outlook for global shipping over the next two decades. This should provide fertile ground for those who are prepared to invest both physical and human capital into the industry, and the ancillary businesses which support it.

Such trends will demand increasing levels of service from P&I clubs in particular. The American Club is single-mindedly committed to providing such support both now and in the future, and will remain focused on rising to the industry's expectations over the years ahead.

2012 FINANCIAL REPORT

Contents

Independent Auditors’ Report

Deloitte.

Deloitte & Touche LLP
100 Kimball Drive
Parsippany, NJ 07054-0319
USA

Tel: +1 973 602 6000
Fax: +1 973 602 5050
www.deloitte.com

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

We have audited the accompanying consolidated financial statements of American Steamship Owners Mutual Protection and Indemnity Association, Inc. (the "Association") which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, changes in members’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility
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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplemental Schedules
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules listed in the table of contents on pages 42-43 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These schedules are the responsibility of the Association’s management. Such schedules have not been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, accordingly it is inappropriate to and we do not express an opinion on the supplemental schedules referred to above.

Deloitte & Touche LLP

June 19, 2013

Member of
Deloitte Touche Tohmatsu Limited

Consolidated Balance Sheets

IN THOUSANDS	NOTE		DECEMBER 31 2012		2011
ASSETS					
Investments	3	**$**	**233,406**	$	227,166
Cash and cash equivalents			**22,098**		25,734
Members' balances receivable			**26,250**		28,644
Reinsurance recoverable	5		**55,993**		61,064
Other assets	4		**21,363**		15,440
Total Assets		**$**	**359,110**	$	358,048
LIABILITIES AND MEMBERS' EQUITY					
LIABILITIES:					
Unpaid losses and allocated loss adjustment expenses	5	**$**	**220,814**	$	218,354
Unreported losses	5		**42,749**		43,548
Unearned premiums			**17,142**		17,478
Reinsurance payable			**7,920**		6,596
Other liabilities	4		**16,256**		11,853
Total Liabilities		**$**	**304,881**	$	297,829
COMMITMENTS AND CONTINGENCIES					
MEMBERS' EQUITY:					
Retained earnings			**43,010**		56,617
Accumulated other comprehensive income			**11,219**		3,602
Total Members' Equity	9, 10		**54,229**		60,219
Total Liabilities and Members' Equity		**$**	**359,110**	$	358,048

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations and Comprehensive Income

IN THOUSANDS	NOTE	DECEMBER 31 2012	2011
INCOME:			
Net premiums and assessments earned	6	$ 93,541	$ 95,672
Net investment income		4,500	5,872
Realized investment gains		3,972	7,301
Total Income		102,013	108,845
EXPENSES:			
Losses and loss adjustment expenses incurred	5	83,265	72,986
Other operating expenses	7	31,995	33,045
Total Expenses		115,260	106,031
Income (loss) Before Income Taxes		(13,247)	2,814
Income tax provision		(360)	(395)
Net Income (Loss)		(13,607)	2,419
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAXES:			
Unrealized gains (losses) on investments		7,617	(5,812)
Other comprehensive income (loss)		7,617	(5,812)
Comprehensive (loss) Income		$ (5,990)	$ (3,393)

Consolidated Statements of Changes in Members' Equity

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2011		$ 54,198	$ 9,414	$ 63,612
Net income		2,419	—	2,419
Unrealized investment (losses)		—	(5,812)	(5,812)
Balance, December 31, 2011		56,617	3,602	60,219
Net loss		(13,607)	—	(13,607)
Unrealized investment gains		—	7,617	7,617
Balance, December 31, 2012	9, 10	$ 43,010	$ 11,219	$ 54,229

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

IN THOUSANDS	DECEMBER 31 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (loss)	$ **(13,607)**	$ 2,419
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of bond premiums	**1,997**	1,919
Realized invesment gains	**(3,972)**	(7,301)
Depreciation	**129**	174
	(1,846)	(5,208)
Changes in operating assets and liabilities:		
Members' balances receivable	**2,394**	(419)
Reinsurance recoverable	**5,071**	(9,023)
Other assets	**(6,002)**	(5,566)
Unpaid and unreported losses and allocated loss adjustment expenses	**1,661**	12,010
Unearned premiums	**(336)**	1,931
Reinsurace payable	**1,324**	3,721
Other liabilities	**(604)**	(1,787)
	3,508	867
Net cash used in operating activities	**(11,945)**	(1,922)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales/maturities of investments	**125,121**	138,520
Purchases of investments	**(121,769)**	(146,849)
Purchases of fixed assets	**(43)**	(95)
Net cash provided by (used in) investment activities	**3,309**	(8,424)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	**5,000**	15,000
Payment of note payable	**—**	(12,500)
Net cash provided by financing activities	**5,000**	2,500
Net change in cash and cash equivalents	**(3,636)**	(7,846)
Cash and cash equivalents, beginning of year	**25,734**	33,580
Cash and Cash Equivalents, End of Year	$ **22,098**	$ 25,734
Supplemental Information:		
Income taxes paid	$ **381**	$ 7
Interest paid	$ **188**	$ 114

See Notes to Consolidated Financial Statements.

2012 Notes to Consolidated Financial Statements (in thousands)

1. Organization

American Steamship Owners Mutual Protection and 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.

Members are charged premiums based on the tonnage of their insured vessels. For the 2012 and 2011 policy years, at December 31, 2012 and December 31, 2011, the gross tonnage insured was 15,483,051 and 17,167,117, respectively.

During 2005, the members of the International Group of P & I Clubs (the "International Group"), of which the Association is a member, 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.

On July 1, 2011, the Association began writing fixed premium protection and indemnity policies. The facility is managed by Eagle Ocean Agencies, Inc. ("EOA") using the trading name of Eagle Ocean Marine, under a management contract with SCB. EOA provides administrative, underwriting, accounting and claims processing services on a commission basis. The facility provides an insurance option for operators of smaller vessels, generally 12,500 gross tons or less, who prefer fixed premium limited cover rather than a mutual product with full International Group Pooling limits. The cover is available to operators worldwide, excluding operators based in the United States or trading exclusively in US waters. The cover is limited to $50 million for protection and indemnity and $2 million for freight, demurrage and defense. The Association provides the security for the primary layer of $25 million for protection and indemnity and $2 million for freight, demurrage and defense, which is then protected by reinsurance on a quota share basis. The excess layer, $25 million excess $25 million, is provided directly from an outside insurer without the involvement of the Association.

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 (GAAP). 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. Security transactions are recorded on the trade date. The Association's investment in the general cell of Hydra is carried at cost.

Other invested assets, consisting primarily of investments in funds or partnerships, 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, and the cost basis of that investment is reduced.

Valuation Techniques – U.S. government and government sponsored enterprises: Comprised primarily of bonds issued by the U.S. Treasury, corporate debt securities issued by the Federal National Mortgage Association, the Federal Home Loan Bank and the Private Export Funding Corporation. These securities are generally priced by independent pricing services. The independent pricing services may use actual transaction prices for securities that have been actively traded.

Equity securities: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Association can access.

Other Sovereign Government Obligations, Municipal Bonds and Corporate Bonds: Valued on the basis of valuations furnished by an independent pricing service approved by the managers or dealers. Such service or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities.

Other invested assets: Certain hedge funds are valued using models that are widely accepted in the financial services industry. Other primary inputs include interest rate yield curves and credit spreads

Fair Value Measurement – 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 establishes 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.

Fixed Assets – 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 their estimated useful lives of three to ten years.

Liabilities for Unpaid Losses, Allocated 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. All changes in estimates are recognized in income currently within the consolidated financial statements.

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.

For the fixed premium facility for nonmembers, premiums are deferred and earned on a pro–rata basis over the terms of the policies, typically twelve months.

The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums.

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. Significant estimates include unreported losses and investments.

Recent Accounting Pronouncements – In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable financial statement users to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective on a retrospective basis for annual reporting periods beginning on or after January 1, 2013 and interim periods therein. The Association is currently assessing the provisions of ASU 2011-11 and its potential impact on future financial statements.

As of January 1, 2012, the Association adopted ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in the U.S. GAAP". As a result of adopting ASU 2011-04, the Association has expanded its fair value disclosures.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 requires disclosure by component of other comprehensive income of the amounts reclassified out of accumulated other comprehensive income by component and into net earnings for the reporting period. ASU 2013-02 is effective for reporting periods beginning on or after December 15, 2012. The Association is currently assessing the provision but does not believe there will be any potential impact on future financial statements.

3. Investments

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in securities classified as available-for-sale at December 31, 2012 and 2011 were as follows:

	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2012:				
US Treasury and obligations of other US government corporations and agencies	$ 311	$ —	$ —	$ 311
Obligations of states and political subdivisions	118,146	3,303	240	121,209
Industrial and Micellaneous Bonds	6,152	39	—	6,191
Common stocks	96,426	10,288	2,367	104,347
Other invested assets	1,152	196	—	1,348
Total	**$ 222,187**	**$ 13,826**	**$ 2,607**	**$ 233,406**

	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2011:				
US Treasury and obligations of other US government corporations and agencies	$ 303	$ —	$ —	$ 303
Obligations of states and political subdivisions	124,541	4,562	89	129,014
Industrial and Micellaneous Bonds	4,147	42	3	4,186
Common stocks	88,416	5,400	6,077	87,739
Other invested assets	6,158	77	311	5,924
Total	$ 223,565	$ 10,081	$ 6,480	$ 227,166

The following summarizes unrealized investment losses by class of investment at December 31, 2012 and 2011. 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, 2012:						
Obligations of states and political subdivisions	$ 16,492	$ 234	$ 357	$ 6	$ 16,849	$ 240
Industrial and Miscellaneous Bonds	—	—	—	—	—	—
Common stocks	19,139	1,808	3,230	559	22,369	2,367
Other invested assets	—	—	—	—	—	—
	$ 35,631	$ 2,042	$ 3,587	$ 565	$ 39,218	$ 2,607

	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, 2011:						
Obligations of states and political subdivisions	$ 6,769	$ 50	$ 1,200	$ 39	$ 7,969	$ 89
Industrial and Miscellaneous Bond	1,060	3	—	—	1,060	3
Common stocks	54,880	5,921	726	156	55,606	6,077
Other invested assets	3,833	270	826	41	4,659	311
	$ 66,542	**$ 6,244**	**$ 2,752**	**$ 236**	**$ 69,294**	**$ 6,480**

The fair value and amortized cost of available-for-sale debt securities at December 31, 2012 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	$ 15,570	$ 15,662
Due after one year through five years	46,367	47,148
Due after five years through ten years	53,430	55,821
Due after ten years	9,242	9,080
Total	**$ 124,609**	**$ 127,711**

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

	2012	2011
Proceeds from sales of investments	$ 119,576	$ 126,476
Gross realized gains	6,790	11,528
Gross realized losses	2,818	4,227

There were realized losses in the amount of approximately $92 thousand recorded at December 31, 2012 that were a result of an investment being other-than temporarily impaired. There were no realized losses recorded at December 31, 2011.

At December 31, 2012 and 2011, United States Government Treasury notes in the amount of $310 thousand and $300 thousand par value, respectively, were deposited with regulatory authorities as required by the New York Insurance 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 publicly traded common stocks and 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, 2012:

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2012			
	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	121,209	—	121,209	—
Industrial and Miscellaneous Bonds	6,191	—	6,191	—
Common stocks	104,347	104,327	—	20
Preferred stocks	—	—	—	—
Other invested assets	1,348	—	—	1,348
Total Investments	**$ 233,406**	**$ 104,638**	**$ 127,400**	**$ 1,368**

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2011			
	TOTAL FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
US Treasury and obligations of other US government corporations and agencies	$ 303	$ 303	$ —	$ —
Obligations of states and political subdivisions	129,014	—	129,014	—
Industrial and Miscellaneous Bonds	4,186	—	4,186	—
Common stocks	87,739	87,719	—	20
Preferred stocks	—	—	—	—
Other invested assets	5,924	—	—	5,924
Total Investments	$ 227,166	$ 88,022	$ 133,200	$ 5,944

During the year ended December 31, 2011, there were no transfers from Level 1 into Level 2.

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, 2012 and 2011.

	YEAR ENDED DECEMBER 31, 2012		
	COMMON STOCKS	OTHER INVESTED ASSETS	TOTAL
Opening balance January 1, 2012	$ 20	$ 5,924	$ 5,944
Total Gain or Losses included in earnings: (realized/unrealized)			
Realized (losses)	—	(584)	(584)
Change in fair value of other invested assets	—	429	429
Purchanse or (sales):			
Purchase	—	2,100	2,100
Sales	—	(6,521)	(6,521)
Transfer in (out) of Level 3	—	—	—
Ending balance, December 31, 2012	**$ 20**	**$ 1,348**	**$ 1,368**

	YEAR ENDED DECEMBER 31, 2011		
	COMMON STOCKS	OTHER INVESTED ASSETS	TOTAL
Opening balance January 1, 2011	$ 20	$ 8,493	$ 8,513
Total Gain or Losses included in earnings: (realized/unrealized)			
Realized gains (losses)	—	(116)	(116)
Change in fair value of other invested assets	—	(302)	(302)
Purchanse or (sales):			
Purchase	—	—	—
Sales	—	(2,151)	(2,151)
Transfer in (out) of Level 3	—	—	—
Ending balance, December 31, 2011	$ 20	$ 5,924	$ 5,944

The following table provides information on the valuation techniques, significant unobservable inputs and ranges for each major category of Level 3 assets measured at fair value on a recurring basis at December 31, 2012:

YEAR ENDED DECEMBER 31, 2011				
		FAIR VALUE	PRINCIPAL VALUATION TECHNIQUES	UNOBSERVABLE INPUT
Other Investments:				
Other invested assets	$	1,348	Market approach	Estimated net asset value multiple which incorporates estimated market value of underlying holding
Common stock		20	Cost approach	Investment is not actively traded, value is listed at cost

4. Other Assets and Liabilities

		2012		2011
Other Assets				
Computer equipment and software - net of accumulated depreciation of $6,060 and $5,930, respectively	$	276	$	362
Receivable for securities sold		222		217
Accrued interest receivable		1,357		1,521
Income tax recoverable		83		61
Prepaid reinsurance premiums		4,266		2,882
Management fee receivable		1,299		1,308
Income tax recoverable		—		2
Advance for general average contributions		4,950		4,950
Other assets		8,910		4,137
	$	**21,363**	**$**	**15,440**
Other Liabilities				
Accrued expenses		975		724
Liability for securities purchased		240		1,115
Note payable, including accrued interest		15,021		10,014
Income tax payable		20		—
	$	**16,256**	**$**	**11,853**

An unbilled assessment in the amount of $6.8 million and $3 million at December 31, 2012 and 2011, respectively, included in other assets in the table above, was recorded as a result of the Association's asbestos-related claims settlement agreement.

At December 31, 2012 and 2011 the Association owed $15 million and $10 million, respectively, on a demand line of credit from Deutsche Bank Trust Company America ("credit facility"). During 2012, the Association borrowed an additional $5 million. Interest on the credit facility is calculated using a 3 month LIBOR plus 1 percent, which was stated at a rate of 1.393 at December 31, 2012. Interest accrued at December 31, 2012 and 2011 was $21 thousand and $14 thousand, respectively. Interest expense for the years ended December 31, 2012 and 2011 was $188 thousand and $118 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:

	2012	2011
Gross balance at January 1	$ 261,902	$ 249,892
Less reinsurance recoverable	55,717	49,177
Net Balance at January 1	**206,185**	**200,715**
Incurred related to:		
Current year	63,762	65,071
Prior years	19,503	7,915
Total Net Incurred	**83,265**	**72,986**
Paid related to:		
Current year	6,189	7,593
Prior years	69,056	59,923
Total Net Paid	**75,245**	**67,516**
Net balance at December 31	**214,205**	**206,185**
Plus reinsurance recoverable	49,358	55,717
Gross Balance at December 31	**$ 263,563**	**$ 261,902**

In 2012, loss emergence was for prior years increased by $19.5 million. The increase reflects an emergence of $11.6 million for the 2011 policy year, of which 10.6 million was expected emergence based on the earned premium of the 2011 policy year ended February 20, 2012. However, there was unfavorable emergence of $7.9 million for policy years 2010 and prior.

In 2011, loss emergence for prior years increased by $7.9 million. The increase reflects an emergence of $4.6 million for the 2010 policy year, which was better than the expected emergence of $9.9 million based on the earned premium of the 2010 policy year ended February 20, 2011. However, there was unfavorable emergence of $3.3 million for policy years 2009 and prior.

	2012	2011
Reinsurance recoverable on unpaid losses	$ 49,358	$ 55,717
Reinsurance recoverable on paid losses	6,635	5,347
	$ 55,993	**$ 61,064**

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

	2012	2011
Direct	$ 76,167	$ 67,300
Assumed	22,634	21,298
Ceded	(15,536)	(15,612)
	$ 83,265	**$ 72,986**

6. Premiums and Assessments

		2012		2011
Premiums written and billed assessments	$	108,032	$	114,686
Change in unbilled assessments		3,844		(879)
Return premiums		(1,470)		(1,697)
Reinsurance premiums ceded		(18,585)		(16,283)
Net premiums and assessments written		**91,821**		**95,827**
(Increase) decrease in net unearned premiums		1,720		(155)
Net Premiums and Assessments Earned	**$**	**93,541**	$	**95,672**

In December 2012, an unbilled assessment in the amount of $6.8 million was recorded as a result of the Association's asbestos-related claims settlement agreement.

In December 2011, a budgeted supplementary call of $18.9 million was levied for the 2011 policy year and was due in two separate installments on July 20 and October 20, 2012, respectively. An unbilled assessment at December 31, 2011 in the amount of $3 million was recorded as a result of the Association's asbestos-related claims settlement agreement as described in Note 8.

7. Other Operating Expenses

		2012		2011
Management fee	$	14,898	$	14,457
Bad debts		1,901		2,264
Brokerage		9,537		10,716
Other		5,659		5,608
Total Other Operating Expenses	**$**	**31,995**	$	**33,045**

8. Commitments and Contingencies

Letters of Credit – At December 31, 2012, the Association had outstanding letters of credit for $17 million.

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.

		2012		2011
Asbestos-Related Claims				
Aggregate gross losses paid to date at December 31	$	10,809	$	10,009
Loss reserves - reported		2,020		1,058
Loss reserves - unreported		4,800		1,918

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 $4.9 million in payments as of December 31, 2012. This represents a one-time $900 thousand payment related to 2006 as well as five payments of $800 thousand related to the 2007 through 2011 years. Additionally, the Association has made another $800 thousand payment in January 2013 related to 2012.

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 New York State Department of Financial Services ("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.

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.

Unrealized gains (losses) on available-for-sale securities - For the purpose of the both statutory and accounting principles generally accepted in the United States of America, the cost of its non-equity investments are reported at book/adjusted carrying value. Under statutory accounting practices, the Association is required to report the statement value of its non-equity investments at book/ adjusted carrying value. Under accounting principles generally accepted in the United States of America, such amounts are recorded at fair market value.

Statutory ULAE Adjustment - Under statutory accounting practices, the Association records a ULAE reserve related to indirect costs of running off the Associations unpaid and unreported losses. Under accounting principles generally accepted in the United States of America, the Association does not record the costs of running off the unpaid and unreported losses until the expenses have been incurred.

Hydra consolidation adjustment - Under statutory accounting practices, the Association reports Hydra as an equity investment. Under accounting principles generally accepted in the United States of America, Hydra's financial statements are consolidated into the Association's financial statements.

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:

		2012		2011
Statutory surplus, as reported	$	63.792	$	65,010
Future assessments receivable up to difference				
between ultimate and present value of losses		(22,550)		(19,368)
Unbilled assessments, net		6,820		2,976
Nonadmitted assets		5,152		6,056
Carrying value of applications software and consultants' fees		142		211
Provision for unauthorized reinsurance		320		571
Allowance for doubtful accounts		(743)		(743)
Unrealized gains (losses) on available-for-sale securities		3,102		4,512
Statutory ULAE Adjustment		3,488		3,539
Hydra consolidation adjustment		(5,294)		(2,545)
Members' Equity on the Basis of Accounting Principles Generally Accepted in the United States of America	**$**	**54,229**	$	**60,219**

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.

The Association has received a draft examination report from the Insurance Department relating to the five year examination ended December 31, 2010. Based on the results of the draft examination report, the Department asserts that the Association's loss and loss adjustment expense reserves were understated at December 31, 2010. The Association disagrees with the amount of the adjustment and is presently in discussions with the Insurance Department. The ultimate outcome from that examination is not yet determined. An unfavorable outcome regarding the range of reserves could negatively impact the Association's statutory surplus, but would not impair it below the Risk Based Capital Company Action Level, or the Association's mandatory minimum surplus of $7,500,000.

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 2009/10 policy year was closed on March 31, 2012, 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 biforcate closed policy years' and open policy years' surplus of the Association by establishing the contingency fund. 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

	2010–11	2011–12	2012–13
INCOME:			
Calls and premiums – net	$ 107,238	$ 102,811	$ 79,150
Investment income	5,318	3,654	1.821
Total Income	**112,556**	**106,465**	**80,971**
EXPENSES:			
Net paid losses	39,229	30,763	5,784
Net pending losses	23,850	38,987	35,819
Unreported losses	2,234	6,464	21,753
Reinsurance premiums	11,138	13,623	13,495
Other operating expenses	22,232	22,054	19,884
Total Expenses	**98,683**	**111,891**	**96,735**
RETAINED EARNINGS	**13,873**	**(5,426)**	**(15,764)**
MEMBERS' EQUITY: OPEN YEARS	**$ 13,873**	**$ (5,426)**	**$ (15,764)**

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

2010/11	$ 6,171
2011/12	$ 6,227
2012/13	$ 7,789

(b) For the 2012/13 policy years calls and premiums are stated on an earned basis to December 31, 2012. Expenses are stated on an accrued basis for the same period.

CLAIMS OUTSTANDING (INCLUDING UNREPORTED LOSSES) - OPEN YEARS

	2010–11	2011–12	2012–13
Gross outstanding claims			
Members' claims	$ 20,736	$ 42,967	$ 51,870
Other Pool claims	8,173	10,614	12,927
	28,909	**53,581**	**64,797**
Pending reinsurance recovery			
From the Group excess of loss reinsurance	—	—	—
From the Pool	—	3,341	—
Other reinsurers	2,825	4,789	7,225
	2,825	8,130	7,225
Net Outstanding Claims	**$ 26,084**	**$ 45,451**	**$ 57,572**

DEVELOPMENT OF CLOSED POLICY YEARS AND CONTINGENCY FUND

	2012	2011
Closed Years' Balance, January 1	**$ —**	$ —
Total income earned	**7,280**	5,059
Net paid losses	**28,697**	25,248
Net pending losses	**(22,071)**	(16,775)
Unreported losses	**1,678**	(3,690)
Reinsurance premiums	**68**	(440)
Other operating expenses	**—**	193
Total expenses incurred	8,372	4,536
Unrealized investment (losses) gains	**7,525**	(5,812)
Transfer from closed policy year 2008/09	**(7,226)**	—
Transfer from closed policy year 2007/08	**—**	12,510
Net change	**(793)**	7,221
Transfer from (to) contingency fund	**793**	(7,221)
Closed Years' Balance, December 31	**$ —**	$ —
Contingency Fund Balance, January 1	$ 62,339	$ 55,118
Transfer from (to) closed policy years	**(793)**	7,221
Contingency Fund Balance, December 31	61,546	62,339
Open Policy Years' Equity		
2009/10	**—**	(7,402)
2010/11	**13,873**	10,966
2011/12	**(5,426)**	(5,684)
2012/13	**(15,764)**	—
Total Members' Equity	$ 54,229	$ 60,219
Claims Outstanding (including unreported losses) – Closed Years		
Gross pending losses		
Members' claims	**$ 100,683**	$ 88,752
Other Clubs' Pool claims	**15,593**	11,638
	116,276	100,390
Pending reinsurance recovery		
From the Group excess of loss reinsurance	**411**	375
From the Pool	**14,575**	17,413
Other reinsurers	**16,194**	12,989
	31,180	30,777
Net Pending Losses	$ 85,096	$ 69,613

(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.

Rental expense for 2012 and 2011 was approximately $728 thousand and $621 thousand respectively. Future minimum rental payments, excluding any sublease income, are as follows:

YEAR	AMOUNT
2013	795
2014	795
2015	795
2016	795
2017	198
Total	**$ 3,378**

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, 2012.

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, 2012 the ratio of 19.3% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 17.5% recorded for the five years ended December 31, 2011, an increase of 1.8%, due mostly to a decrease in premium written during 2012.

13. Subsequent Events

Subsequent events have been considered through June 19, 2013 for the audited financial statements to be issued on that date. No other events occurred subsequent to December 31, 2012, through June 19, 2013, which would have a material effect on the financial position, results of operations or cash flows of the Association.

Unaudited Supplemental Schedules

Statement of Operations and Comprehensive Income Year's Ended December 31, 2012 and 2011

	P&I		FD&D	
IN THOUSANDS	2012	2011	2012	2011
INCOME:				
Net premiums and assessments earned	**$ 89,449**	$ 90,637	**$ 4,092**	$ 5,035
Net investment income	**4,303**	5,563	**197**	309
Realized investment gains	**3,798**	6,917	**174**	384
Total Income	**97,550**	103,117	**4,463**	5,728
EXPENSES:				
Losses and loss adjustment expenses incurred	**78,827**	69,096	**4,438**	3,890
Other operating expenses	**30,595**	31,306	**1,400**	1,739
Total Expenses	**109,422**	100,402	**5,838**	5,629
Income (loss) Before Income Taxes	**(11,872)**	2,715	**(1,375)**	99
Income tax (provision) benefit	**(344)**	(374)	**(16)**	(21)
Net Income (loss)	**(12,216)**	2,341	**(1,391)**	78
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX:				
Unrealized gains (losses) on investments	**7,284**	(5,506)	**333**	(306)
Other comprehensive income (loss)	**7,284**	(5,506)	**333**	(306)
Comprehensive (loss) Income	**$ (4,932)**	$ (3,165)	**$ (1,058)**	$ (228)

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, 2012 and 2011

IN THOUSANDS	2012	2011
NET CLAIMS PAID		
Gross claims paid:		
Members' claims	$ 74,933	$ 67,214
Other Clubs' Pool claims	22,206	9,374
	97,139	76,588
Recoveries on claims paid:		
From the Group excess of loss reinsurance	16	34
From the Pool	7,182	4,332
Other reinsurers	14,696	4,706
	21,894	9,072
Net Claims Paid	$ 75,245	$ 67,516
CHANGE IN NET PROVISION FOR CLAIMS		
Claims outstanding:		
Members' claims	$ 216,256	$ 215,023
Other Clubs' Pool claims	47,307	46,879
	263,563	261,902
Reinsurance recoverables:		
From the Group excess of loss reinsurance	411	375
From the Pool	17,915	25,981
Other reinsurers	31,032	29,361
	49,358	55,717
Net claims outstanding at December 31	214,205	206,185
Net claims outstanding at January 1	206,185	200,715
Change in Net Provision for Claims	$ 8,020	$ 5,470

The Mission of the American Club

The American Club's mission is to provide its Members with a broad and financially secure range of P&I and related insurance services which most effectively meet the imperatives of their day-to-day business and which are delivered in an attentive, efficient, courteous and focused manner. Specifically, the American Club seeks to:

- Foster the development of a broadly-based, diverse and high quality membership by reference to vessel-type, trade and domicile of management;
- Provide insurance services which are carefully tailored to individual Members' needs at a cost which is competitive, yet fully reflects a responsible approach to the financial well-being of the Club as a whole;
- Apply best industry practice to issues of loss prevention and risk control;
- Handle claims in an energetic and practical manner aimed at minimizing costs both to individual Members and to the Club as a whole;
- Ensure that the financial transactions of Members and others who deal with the Club are accomplished with efficiency, accuracy and fairness;
- Develop and maintain cordial and constructive relationships with regulators, the Club's International Group co-venturers, the broking community, reinsurers, the Club's correspondents and other professional service providers, rating agencies and all other business associates and counterparties in every sphere in which it operates;
- Exhibit in the conduct of its corporate governance exemplary standards of transparency, being alert to the needs of, and accountable to, Club Members at large.

In accomplishing its mission, the American Club seeks to exceed expectations in all that it does, justifying its status as a first division marine insurer with a reputation for professional integrity, financial strength and customer care commanding universal respect within the industry.

Board of Directors

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

John E. Couloucoundis, DELTA NAVIGATION, INC.

Kenneth T. Engstrom, INTERNATIONAL SHIPPING PARTNERS, INC.

Cigdem Sarioglu Ergut, SARIOGLU SHIPPING & TOURISM, LTD.

Elias Gotsis, EUROTANKERS INC.

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

Chih-Chien Hsu, EDDIE STEAMSHIP COMPANY, LTD.

Angelos D. Kostakos, OCEANSTAR MANAGEMENT INC.

Cliffe F. Laborde, LABORDE MARINE, LLC

Michael L. Murley, MARTIN RESOURCE MGMT. CORP.

Martin C. Recchuite

Katia Restis, ENTERPRISES SHIPPING & TRADING S.A.

Steven T. Scalzo, FOSS MARINE HOLDINGS

George Vakirtzis, POLEMBROS SHIPPING LIMITED

Ioannis Vardinoyannis, HELLENIC SEAWAYS MARITIME S.A.

Jonathan C. Wales, REINAUER TRANSPORTATION COMPANIES

Servet Yardimci, YARDIMCI GROUP

Secretary

Joseph E. M. Hughes

As of June 1, 2013

AMERICAN STEAMSHIP OWNERS MUTUAL
PROTECTION & INDEMNITY ASSOCIATION, INC.

SHIPOWNERS CLAIMS BUREAU, INC., MANAGER

SHIPOWNERS CLAIMS BUREAU, INC.
One Battery Park Plaza, 31st Floor
New York, New York 10004 U.S.A
tel +1.212.847.4500
fax +1.212.847.4599
web www.american-club.com

SHIPOWNERS CLAIMS BUREAU (UK), LTD.
London Liaison Office
New London House – 1st Floor
6 London Street
London EC3R 7LP U.K.
tel +44.20.7709.1390
fax +44.20.7709.1399

SHIPOWNERS CLAIMS BUREAU (HELLAS), INC.
51 Akti Miaouli – 4th Floor
Piraeus 185 36 Greece
tel +30.210.429.4990.1.2.3
fax +30.210.429.4187.88
email claims@scb-hellas.com

SCB MANAGEMENT CONSULTING SERVICES, LTD.
Room 1803 – Hongyi Plaza
288 Jiujiang Road
Shanghai 200001 China
tel +86.21.3366.5000
fax +86.21.3366.6100
email claims@scbmcs.com