THE AMERICAN CLUB

2013 Annual Report

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2013 was a year of achievement for the American Club. Tonnage and premium grew. Claims developed as expected. Underwriting results were solid. Investments performed well. Surpluses remained stable. Standard & Poor's increased the Club's rating to investment grade. Loss prevention initiatives were expanded. Service capabilities were enhanced. A customer satisfaction survey validated the Club's strategic direction. Despite an uncertain business climate, the American Club remains well placed to exploit the opportunities of the future.

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HIGHLIGHTS

2013 was a year of achievement ... 2014 ... tonnage growth and expanding diversity support positive outlook for the future.

2013 Highlights

- 2013 renewal sees stability in membership and uplift in projected total premium.
- Tonnage increases during the year, core rating levels remain firm.
- 2010 policy year closed in substantial surplus without further call.
- Funds under investment generate a 6.7% return as equities rally.
- Claims exhibit upward trend in first half, but moderate toward year end.
- Statutory and GAAP surpluses remain stable.
- Standard & Poor's increases Club's counterparty rating to investment grade.
- Member and broker satisfaction survey endorses Club's strengths and strategic direction.
- Eagle Ocean Marine fixed premium facility continues to perform well.
- Loss prevention training and related initiatives expand.
- New underwriting and business development structure is unveiled.
- 10% increase in premium levels across all classes ordered for 2014: Pool retention increases: market reinsurance costs stabilize.
- New stop-loss reinsurance of Club's retention introduced: arrangements resemble those of lower Pool protection.
- 2014 renewal sees achievement of budgeted uplift in annualized premium: tonnage growth and expanding diversity support positive outlook for the future.

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, 2013.

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 the Club's Members took place in New York City on June 20, 2013. At that meeting, all the Directors who had presented themselves for re-election were duly re-elected to serve for a further twelve months. Mr. Servet Yardimci of the Yardimci Group of Istanbul resigned from the Board at the meeting. He was thanked most warmly for his service to the Board over the many years during which he had participated in its affairs, and wished the very best of good fortune for the future.

At the same meeting Mr. Lianyu Zhu of CCCC International Shipping Corporation of Beijing was elected a member of the Board. The re-elected Directors welcomed Mr. Zhu in the expectation of his making a significant contribution to the affairs of the Club over the years ahead.

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. All these meetings took place in New York.

On each of these occasions, 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, marketing and business development, developments in global regulation affecting shipping, and the implementation of other political initiatives, including those in regard to sanctions, as well as many other subjects affecting the Club's affairs.

The period under review saw the formal closing of the 2010 policy year, without contribution in excess of originally estimated total premium, as of March 31, 2013. On closure, the substantial surplus for the year was transferred to the Club's contingency fund.

In Circular No. 31/12 of November 20, 2012, Members were informed of the Club's premium policy for 2013. The Circular communicated the Board's decision to apply a 10% general increase for 2013, any additional costs of the Club's reinsurance arrangements for the year to be charged separately.

For 2014, a general increase of 10% was ordered across all classes of the Club's business, together with increases in certain deductibles. 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 2011 was reduced, in November 2013, to 5%, while the release call margins for 2012 and for 2013 were ordered to 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 2013. Despite continuing market uncertainty, the Club realized a 6.7% return on its portfolio. Equities returned 27.9%, while earnings from the Club's fixed income investments were flat over the period.

Despite the excellent returns on equity investments, but in recognition of their potential volatility, the policy established toward the end of 2011, being to move a larger part of the Club's portfolio, in a carefully measured fashion, into fixed income investments, was further progressed during 2013, along with other initiatives.

DIRECTORS' REPORT

Your Directors thank all Members for their continuing support of the Club which is never taken for granted, but must continue to be earned.

The Club's year-end GAAP equity for 2013 increased by about 6% over year-end 2012 to $57.3 million, while the year-end unaudited statutory surplus for 2013 reported at $63.6 million remained about the same as at year-end 2012. It was, concomitantly, a source of encouragement that the marked attenuation of premium caused by the "churn effect" which featured during a large part of the 2012 policy year began to reverse itself during 2013.

While the projection of claims for the Club's own account increased somewhat during the year, so did the annualized level of premium, the latter increasing by about 5% at February 20, 2014 by comparison with that of twelve months earlier. Moreover, total pool claims for 2013 would appear – at least at an early stage – to be emerging at a more subdued level than that which applied at a similar point of development for 2012.

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.

Several important initiatives originally proposed in the Club's business and marketing plans of 2012 were pursued during 2013. They are expected to have a positive effect on the Club's competitive position going forward. The Club also undertook a Member and broker satisfaction survey in July and August of 2013. The positive results of this exercise were notified to the membership by Circular in late September, and have since informed a number of organizational initiatives.

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 placed for the most part at Lloyd's of London, has added to the range of services available from the American Club.

It is pleasing to note that EOM has grown its business respectably over the recent past. Moreover, in the early part of 2014, the facility increased its standard limit of cover to $100 million, and increased the size of vessels for which the facility could in limited circumstances offer cover.

2013 was a challenging year. Nevertheless, the American Club continued to make good progress. This was sustained into the 2014 renewal season. Your Board remains optimistic as to the future.

Your Directors thank all Members for their continuing support of the Club which, as always, is never taken for granted, but must continue to be earned. This is more than a ritualistic statement: as Member-owned affinity groups, clubs live by such support.

At the same time, there are many other actors who sustain the mutuality in other ways. Thanks are equally due to them and to everyone else who worked hard in 2013 to move the Club forward in a continuingly difficult environment for the P&I sector in general.

Challenges lie ahead not only for the American Club but for the industry as a whole. The business environment of the last several years has, by common consent, been among the most arduous the clubs have experienced.

As your Directors have said in the past, they will continue to work to ensure, in close cooperation with the Club's Managers, that Members' expectations are fulfilled – and preferably exceeded – over the years ahead. The Club continues to see the future as a bright one holding, as it does, many exciting prospects both for itself and its many friends at home and abroad.

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REPORT OF THE MANAGERS

If 2012 marked the low point in the current shipping cycle, 2013 might be seen as a period in which a freight market recovery gained a faltering momentum.

From the American Club's perspective, the flow of ship disposals which had started twelve months earlier began to abate, and both premium and tonnage levels started to climb. This trend has continued in recent months, buoyed by the more positive market sentiment which began to take hold as 2013 came to a close.

Whether this, admittedly cautious, optimism will prove to be justified remains to be seen. However, against this background, the Club made good progress throughout the year, despite the uncertainties which continue to characterize the business environment in general.

Entered Tonnage, Underwriting and Reinsurance

The 2013 renewal took place in the context of a shipping climate little different from that twelve months earlier, the continuing recession necessarily inhibiting any industry appetite for premium escalation.

The Board had ordered that a general increase of 10% be applied to premium for all classes of the Club's business. Mutual premium was defined as estimated total premium for the year, to be debited in four equal installments during 2013.

FD&D premium 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 to apply for charterers' and other fixed premium entries, any additional cost of the Club's reinsurance to be added separately.

In the result, the cash increase in total premium on renewing P&I business for 2013 was about 6%, exclusive of additional reinsurance costs. However, as in the case of previous years, there was some setting-off of premium increases against higher deductibles and other modification of insurance conditions. These were worth about 2% in money terms, implying an overall increase in year-on-year premium for the P&I portfolio of approximately 8%. For FD&D entries, the overall increase was 7%.

Owing to a rise in ship disposals over the first half of 2012, particularly within the dry bulk sector, there was some reduction in tonnage across both the P&I and FD&D classes. Renewed tonnage as of February 20, 2013 was therefore about 10% less than it had been twelve months earlier.

Happily, the attenuation of tonnage and revenue began to abate during 2013. Both began to grow again, as new buildings and other vessel acquisitions were added to the portfolio. It is gratifying to note that these trends have persisted over recent months, and there are signs that the forthcoming period will feature a more favorable climate for growth than that which existed only a year ago.

For the 2014 renewal, the Board once again ordered that a general increase of 10% apply to premium for all classes of business, the release call for both P&I and FD&D being set at a margin of 20% over and above estimated total premium. There were also minimum deductibles to apply to certain types of claims.

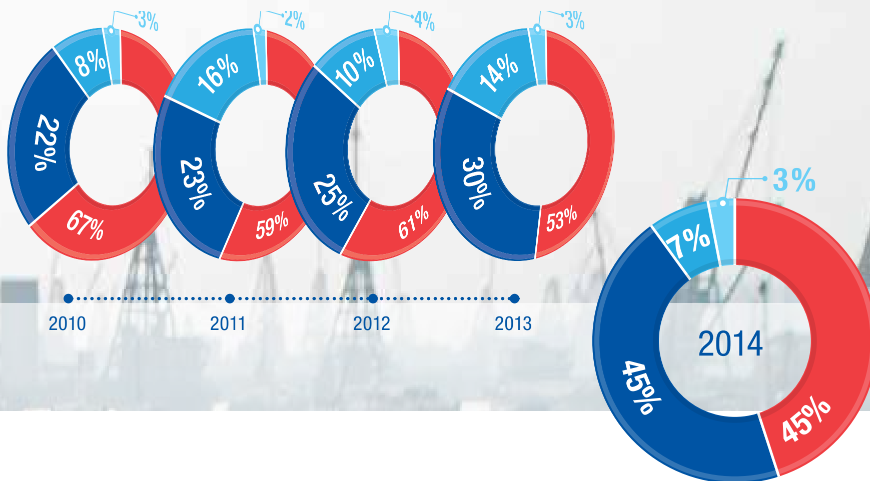
At the conclusion of the renewal, the cash increase in premium for P&I was slightly under 8%, and nearly 6% for the Club's FD&D entries. However, when the money value of deductible increases and other adjustments to insurance conditions is taken into account, the target of 10% in premium set by the Board for 2014 was broadly achieved.

As to new business for 2014, entries gained exceeded entries lost by just under a million gross tons. All in all, 2014 annualized P&I premium grew by 5% over the equivalent figure for 2013. This was a respectable result given the effect of "churn" during the 2013 policy year. This had caused rates per ton to take a downward trajectory across the market as a whole.

For the 2014 policy year, the distribution of membership is somewhat different from that of twelve months earlier. By vessel type, bulk carriers and tankers represent the largest sectors in tonnage terms, both being 45% of the total (respectively 61% and 30% a year before). General cargo, container, passenger and RoRo vessels account for 7% of the total (14% a year earlier). The remaining 3% is made up of tugs, barges and small craft, being the same proportion as that at the beginning of 2013.

MEMBERS’ TONNAGE BY VESSEL TYPE

- Bulk Carriers
- Tankers
- General Cargo/Container/Passenger/RoRo
- Tugs/Barges/Small Craft



CLUB ENTRIES

For … 2014 … the distribution of membership is somewhat different from that of twelve months earlier.

The latter sector, however, is larger in terms of its contribution to the total premium of the Club, being 13% thereof. As to the balance, 33% of premium is generated by bulk carriers, 30% by tankers and 24% by general cargo, container, passenger and RoRo vessels.

By reference to domicile of management, the Asian region has now overtaken Europe as the largest constituency of the Club’s business in terms of tonnage, with 48% of the total. Europe stands at 40% (2013: 42%) with North America and the rest of the world at, respectively, 9% (2013: 13%) and 3% (2013: 3%).

The picture is somewhat different in premium terms. By this metric, North America and Europe each account for 33% of the total, with Asia at 29% and the rest of the world at 5%. The breakdown of the Club’s tonnage by vessel type is set out above, and by membership domicile on page 13.

On the International Group reinsurance front, the Club’s arrangements for 2013 were broadly the same as those of the previous year.

An important change was an increase in the Pool ceiling from $60 million to $70 million. Within the additional $10 million layer, 5% was to be borne by the club bringing the claim, the remaining 95% being shared among all Group clubs on a tonnage basis. Hydra Insurance Company Limited provided reinsurance as to 95% of this top $10 million tranche. In addition, Hydra reinsured the Pool’s exposure to an expanded 30% vertical co-insurance of the first layer of the Group’s market placement for 2013.

Hydra is a segregated cell captive which reinsures the Group’s exposure to claims in the upper, and upper-upper, layer of the Pool in addition to the 30% vertical co-insurance of the first layer of the Group’s market placement as described above. Each Hydra cell reinsures its respective club for these purposes.

While the overall increase in general excess of loss reinsurance premium for 2013 was significant – over 30% on average, with heavy weighting toward the passenger sector (+125%) – that for 2014 was more subdued. Here the overall increase was in the order of 7% with, again, some weighting toward the passenger sector (+20%) in light of a significant increase in the overall estimate for the COSTA CONCORDIA claim during the year.

2014 has seen a further step-up in the attachment point of the Group’s market reinsurance from $70 million to $80 million. The new, extended tranche of $20 million excess of $60 million is subject to an individual club retention of 5% of all claims within the layer and, for the remaining part, is reinsured – on a tonnage basis – by Hydra in a manner similar to that which prevailed in 2013. A schematic of the Group’s current arrangements is set out on page 19.

2013 saw an increase in the individual retention of Group clubs from $8 million to $9 million. This continues for 2014, and has influenced the manner in which the Club reinsures claims for its own account in the current year. For 2013, it continued to reinsure its retention through an excess of loss arrangement for $4 million excess of $5 million placed at Lloyd’s of London and with Partner Re.

The Club also continued to reinsure its exposure to the lower Pool with Hannover Re, being the second year of a three year contract. The arrangement – which continues for 2014 – has provisions in regard to cancellation, commutation and profit commission which provide flexibility for the Club in managing the contract, the purpose of which is to smooth the Club’s exposure to the Pool over time, given the unpredictable spikes to which it is prone.

For 2014, the Club has expanded its relationship with Hannover Re through the purchase of a whole account aggregate reinsurance of claims within the Club's retention. The new arrangements are different from the expiring program, being a cumulative stop-loss reinsurance rather than a conventional per occurrence excess of loss cover. As in the case of the Club's lower Pool protection, this contract also contains provisions in regard to cancellation, commutation and profit commission which will provide the Club with considerable flexibility going forward.

The American Club maintained its policy of product diversification during 2013 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 vessels in local and regional trades, principally in the East Asia, Europe, Africa and other areas outside the United States.

In doing so, the Club increased its participation in the underlying $25 million quota share reinsurance of the facility from 15% to 20%, the remainder of the exposure being shared with Lloyd's underwriters. The Club also purchased a conventional excess of loss reinsurance for a layer of $25 million excess of $25 million, thus making available primary cover of up to $50 million per claim.

Further developments have taken place in the early part of 2014. Eagle Ocean Marine has further expanded its reinsurance arrangements so as now to be able to provide cover up to $100 million per claim, thus increasing its market competitiveness. Additional advantage has also been secured through the ability of the Club selectively to offer terms for vessels larger than those falling within the original 12,500 gross tons cap.

The facility – managed by Eagle Ocean Agencies, Inc., a sister company of the Managers – continued to make progress during the period, despite increasingly intense competition. The Club remains committed to the development of Eagle Ocean Marine, and is confident that the facility will expand its reach over the months ahead.

On the ratings front, it was gratifying to report to Members, in the middle of 2013, that Standard & Poor's Ratings Services had raised the American Club's financial strength rating a full notch from BB+ to BBB-, an investment grade, with a stable outlook. This followed a comprehensive review of the Club's current and prospective circumstances by reference to Standard & Poor's new criteria for the rating of insurance companies.

In its rationale, Standard & Poor's referred to its improved view of the Club's prospective capital adequacy, business risk profile and competitive position. The agency also referred to the Club's enhanced underwriting risk controls which, among other things, had caused the Club's average loss ratios to experience a downward trend in recent years.

The Club's year-end GAAP equity for 2013 increased by about 6% over year-end 2012 to $57.3 million, while the year-end unaudited statutory surplus for 2013 reported at $63.6 million remained about the same as at year-end 2012. Given the churn effect over the recent past, and a discernible upturn in the cost of retained claims – particularly at higher levels of exposure – this was a creditable result. It was also supported by healthy investment returns.

Certain changes were made to the Club's underwriting and business development capabilities toward the end of 2013 to enhance the delivery of service to Members and their intermediaries.

REGIONALIZATION

The Club's underwriting and business development functions are now operated on a regional basis.

As a result, the Club's underwriting and business development functions are now operated on a regional basis. The four regions in question correspond to the four main constituencies of the Club's membership, being North America, EMEA (Europe, Middle East and Africa), Greater China and North Asia, and South and Southeast Asia.

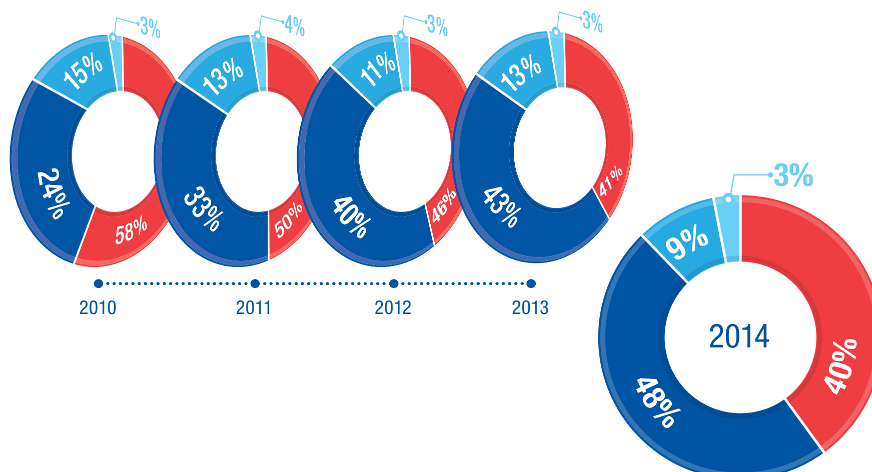
The overarching aim in adopting this structure has been to move the Club's risk assessment, technical underwriting and business development activities much closer to the local needs of Members and their brokers, in order to attend in a focused way on the special characteristics and expectations of regional shipping communities and, thereby, to enhance the overall delivery of service.

This decentralization of the insurance function is working well. The underwriting directors responsible for each region have been given substantial authority to manage their portfolios, and to pursue new opportunities for the Club in partnership with the business development directors for those regions. The favorable results of the most recent renewal testify to the effectiveness with which this initiative has been implemented.

Also toward the end of 2013, the Club announced the launching of a new Member portal to relevant IT-based claims and underwriting records. This allows, subject to appropriate security measures, Members and their brokers to access real time information on claims and their impact upon underwriting performance.

MEMBERS' TONNAGE BY MANAGEMENT DOMICILE

• Europe • Asia • North America • Rest of the World



Supplementary and Release Calls

The period under review saw the formal closing of the 2010 policy year, without call in excess of the original forecast, as of March 31, 2013. The surplus for the year of some $16.3 million was transferred on closing to the Club's contingency fund.

As has been the case since 2010, it is pleasing to note that no unforecast additional calls were levied for any year during 2013. So far as release calls are concerned, the margin for 2011 was reset to 5% from 15%, having originally been reduced from 25% in November 2012. Release call margins for 2012, 2013 and 2014 remain at 20% of estimated total premium.

Following the European Commission's decision during 2012 to conclude its investigations into the International Group of P&I Clubs' claims sharing and reinsurance arrangements, all clubs have agreed to publish, at least annually, a statement of their release call percentages, including factors taken into account in calculating those percentages by reference to the actual assessment of various enterprise and other risks.

In conformity with this policy, in November 2013, being the same time at which individual open years' release call margins were notified to Members, the Club's Board explained the factors which it had taken into account in calibrating the figures in question.

Specifically, these were premium risk, catastrophe risk, reserve risk, market risk and counterparty default risk, as well as the exposure of the Club generally to the wide variety of operational risks which, over time, it needs to consider in determining both its basic premium and, more particularly, release call needs in regard to all open policy years.

Finance and Investments

Three big questions dominated the investment landscape during 2013: would the global economy continue to expand, and how would its main actors perform; when and to what extent would the US Federal Reserve begin to withdraw its quantitative easing and low interest rate support of the US economy; and how would the equity and credit markets react to these developments?

Although the answer to the first question remained difficult to answer with confidence, other than to say that things appeared to be improving, answers to the next two questions became clearer as the year unfolded.

As widely expected, the Fed began to taper its purchase of government bonds and other securities and thus gradually to modify its previously very accommodative posture. However, the appointment of Janet Yellen as Fed Chairman in succession to Ben Bernanke was taken as a sign that its low interest rate policy would remain in place for some time to come.

Bond yields began to rise off historic lows as 2013 progressed. Valuations were affected by this upward movement in yields, but the highly negative scenarios which had been predicted for certain parts of the credit markets failed to materialize, for example in the municipal space, notwithstanding the notable default of Detroit in the United States.

INVESTMENTS

As of May 31, 2014, the portfolio had returned 3.4% year-to-date, ahead of relevant benchmarks.

Most tellingly, the US equity markets experienced an exceptional rally during the year, the S&P 500 moving up more than 32%, with other local indices showing similar gains. European bourses, by contrast, although enjoying improvement over the previous year, did not achieve such robust returns, while emerging market stocks turned negative in 2013, as lower commodity prices and diminishing capital inflows caused prices to fall.

Overall, the American Club enjoyed a return of 6.7% across its portfolio for 2013. Its equity investments generated a return of nearly 28%, while its fixed income portfolio essentially broke even.

Under the guidance of the Finance and Audit Committee, assisted by the Club's advisors, Merrill Lynch, the Board continued to implement a policy aimed at moderating portfolio volatility. The measured redeployment of equity investments continued during the year, but rising valuations necessarily distorted asset class weightings. In the result, the proportion of equities (and alternative strategy investments) to total funds was about 31% as of December 31, 2013, compared with approximately 33% twelve months previously. Further reweighting remains likely over the medium term.

As of May 31, 2014, the portfolio had returned 3.4% year-to-date, ahead of relevant benchmarks. Fixed income prices have picked up in recent months, while stocks have fluctuated. It remains to be seen how these trends will develop for the remainder of 2014. There are grounds for cautious optimism that a continuingly positive return will be achieved, early market consensus suggesting the S&P 500 at around 1,950 by year-end, despite interim volatility, and a yield of between 3.60% to 3.75% for the ten year US Treasury.

Volatility will likely remain as economic and geopolitical uncertainties persist: ambiguous prospects in regard to US growth, continuing fiscal challenges within the Eurozone, a Chinese economy in transition, and several background security issues – most recently those raised by Russian intervention in Crimea and eastern Ukraine.

Claims

Over the last decade, the Club's retained claims have developed in three distinct phases.

From 2003 to 2006, ultimate losses for the Club's own account averaged about $96 million a year. Following a reassessment and consolidation of the Club's portfolio during the 2006 and 2007 renewals, the average figure for policy years 2007 through 2009 was significantly lower at about $70 million per annum.

This improvement has continued into more recent years. 2010 was the best to date with projected net ultimate losses for the Club's own account at just over $50 million. 2011 and 2012 are emerging at levels about 10% higher than those for 2010. These are encouraging trends and reflect the Club's continuing emphasis on loss prevention and claims control generally.

The development of claims within the International Group Pool has been more volatile. 2006 and 2007 generated comparatively high exposures, but 2008 was significantly better. However, the years since 2009 have seen a steady increase in Pool claims, 2012 being the most expensive year to date, notwithstanding its predecessor year attracting some notoriety for the COSTA CONCORDIA and RENA incidents, the former now being the largest claim ever made on the International Group.

There are grounds for cautious optimism that 2013 will be less expensive than the two earlier years. However, Pool claims have a tendency to deteriorate over the medium term, so there can be no certainty that this sanguine projection will in fact materialize as the year draws closer to maturity.

So far as the Club's own claims are concerned, 2013 – much as was the case in 2012 – also developed in phases.

The first half of the year was marked by several major claims, the earliest and largest involving passenger repatriation and illness/injury related claims on cruise ships. Both involved the application of the new EU PLR regime.

Toward the end of the first half, there were two major casualties, one involving a grounding of a bulk carrier of South Korea and the other a vessel which foundered off the coast of Thailand. The former involved the Club in significant wreck removal costs, while the latter entailed considerable SCOPIC and related salvage expenses.

The second half of the year proved to be more benign, although its closing weeks were marked by two matters involving third-party property damage, both of which occurred in the United States. Both cases are in the early stages of investigation, and concomitant development.

Apart from these major incidents, 2013 was, in terms of attritional claims, much in line with its predecessor years. 98% of all losses, net of deductible, had a value of less than $250,000 although, as reported by other Group clubs, there was a rather larger number of claims at the higher end of retained exposure, some 14 such losses being in excess of $1 million each.

As to claim type, those in respect of cargo were, at the twelve month point of development, cumulatively lower than those experienced for any of the past six policy years. While claims in respect of collision continued to feature in much the same way as they had done in 2012, they averaged $85,000 per incident, by contrast with the previous year's $111,000 average cost per claim.

CLAIMS

2013 was, in terms of attritional claims, much in line with its predecessor years.

Claims in respect of illness, injury and death to crew, stevedores, passengers and other third parties were rather higher as a proportion of total claims than in previous years. Typically ranging between 25% to 30% of overall exposure, 2013 saw this type of claim rise to 45% of the total.

To some extent, this is the corollary of lower aggregate claims relating to cargo. It will be instructive to see whether this will form part of a larger trend going forward. In the meantime, the Club's related loss prevention initiatives, such as its PEME program, will be of obvious value in limiting future exposure.

So far as the Club's Class II (Freight, Demurrage and Defense) claims are concerned, the experience in 2013 continued to reflect the difficulties of the freight markets and, in particular, Members' relationships with their counterparties.

As with previous years, the majority of FD&D matters in 2013 involved unpaid freight or hire disputes. However, the overall cost to the Club of claims in this sector remains comparatively modest by comparison with the P&I (Class I) business – being in order of $3 million annually in the aggregate – much in line with the experience of earlier years.

Activity within the International Group of P&I Clubs

The American Club played an active role in the affairs of the International Group during 2013. The Group continued to be engaged in a wide variety issues in which it represents a persuasive voice on matters of policy and regulation affecting shipowners.

Further developments in sanctions legislation – at both a national and regional level – continued to pose challenges to, and to command the considerable engagement of, the Group. A difficult geopolitical climate suggests that the sanctions landscape is unlikely to become any less complex over the years ahead.

The coming into force of the Maritime Labor Convention, 2006 (MLC) in August, 2013 generated significant Group activity. It was recognized from the outset that the MLC presented challenges to shipowners and their P&I insurers. It mandates a broad range of operational and technical compliance and introduces new provisions on financial security and other liability issues. In order to show that they fulfill their new obligations under the Convention, shipowners are required to obtain a Maritime Labor Convention Certificate of Compliance from their flag state.

Meeting this challenge has been complex and demanding. However, following extensive consultation between managers and their boards, and within the International Group itself, it was agreed to respond to the MLC's requirements through the introduction of new cover terms which came into effect during 2013.

Accordingly, cover has generally been extended to meet repatriation costs in the circumstances envisioned in the MLC, including where the shipowner member becomes insolvent. Moreover, the Group has been successful to date in having club certificates of entry regarded as proof of compliance with its provisions without the need for separate certificates of financial responsibility, or blue cards.

As to certificates of financial responsibility under the United States Oil Pollution Act of 1990 (OPA), there has recently been extensive discussion about whether the long-standing policy of Group clubs not to provide such certificates should be changed. This discussion resulted from the announcement by one club that it was minded to provide such certification in the future, notwithstanding settled Group policy to the contrary.

Club boards have now been asked to consider the following questions: should the current Group policy on direct action guarantees be changed; would it be in shipowners' interest for clubs to issue United States OPA certificates of financial responsibility; if so, should such US guarantees be added to the list of poolable guarantees?

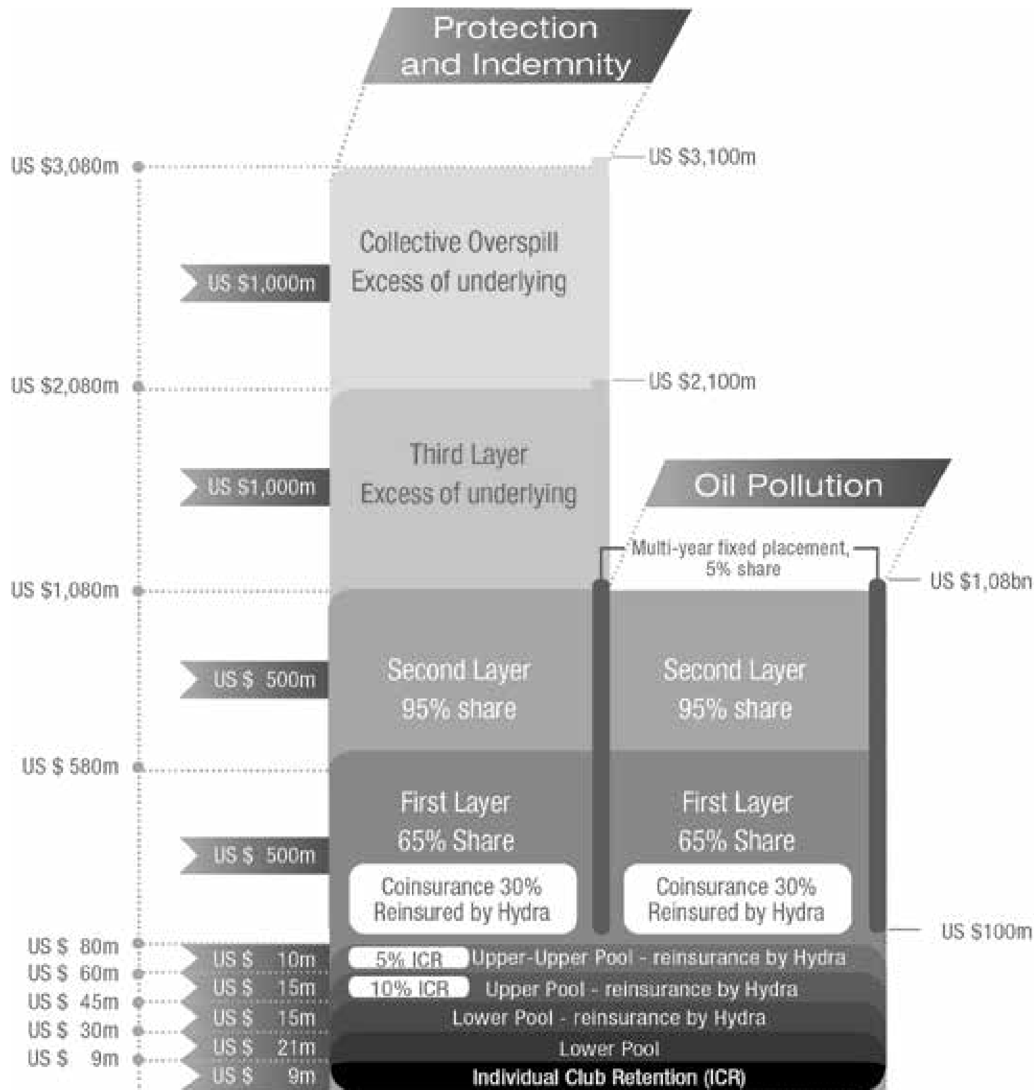
The American Club Board considered these questions at its meeting in March, 2014 and said no to the first two questions, (the last question being inapplicable in the sense that the answer to the second question had not been yes). At the time of writing, several clubs had yet to report. The subject will continue to engage the International Group over the forthcoming period.

The above issues represent only a part of the wide range of matters which typically fall within the universe of Group activity. Fresh challenges will emerge over the months ahead, as new liability regimes emerge and other issues arise. For example, the 2002 Protocol to the Athens Convention came into force on April 23, 2014 and the Nairobi Convention on the Removal of Wrecks will enter into force in April, 2015.

The Group's ability to confront challenges speaks to the unique collection of technical expertise which exists within the clubs and which is an unparalleled strength of the Group 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.

INTERNATIONAL GROUP

The Group ... represents a persuasive voice on matters of policy and regulation affecting shipowners.



SCHEMATIC OF INTERNATIONAL GROUP REINSURANCE ARRANGEMENTS FOR OWNERS' ENTRIES 2014

Safety and Loss Prevention

2013 marked the tenth anniversary of the Club's Pre-Employment Medical Examination (PEME) program. It has gained considerable momentum over the decade since it began. It now covers seafarers originating from Bulgaria, India, Indonesia, Latvia, the Philippines, Poland, Romania, the Russian Federation and Ukraine.

The network of approved clinics grew during 2013, Members being informed of new capabilities in various ports and places around the world by way of Circular. The overall aim has been to provide Members with flexibility and convenience so that, for example, examinations can take place at clinics – such as those in Greece and the United Kingdom – which are not necessarily based in the same jurisdictions as those from which qualifying seafarers originate.

The Club's vessel survey program saw an increase in activity during 2013, with 249 inspections during the year, 6% more than 2012. In September 2013, the Club introduced a new policy aimed to ensure that every vessel ten years of age or older at any point in time was surveyed at least every three years, regardless of whether it had been the subject of an earlier inspection.

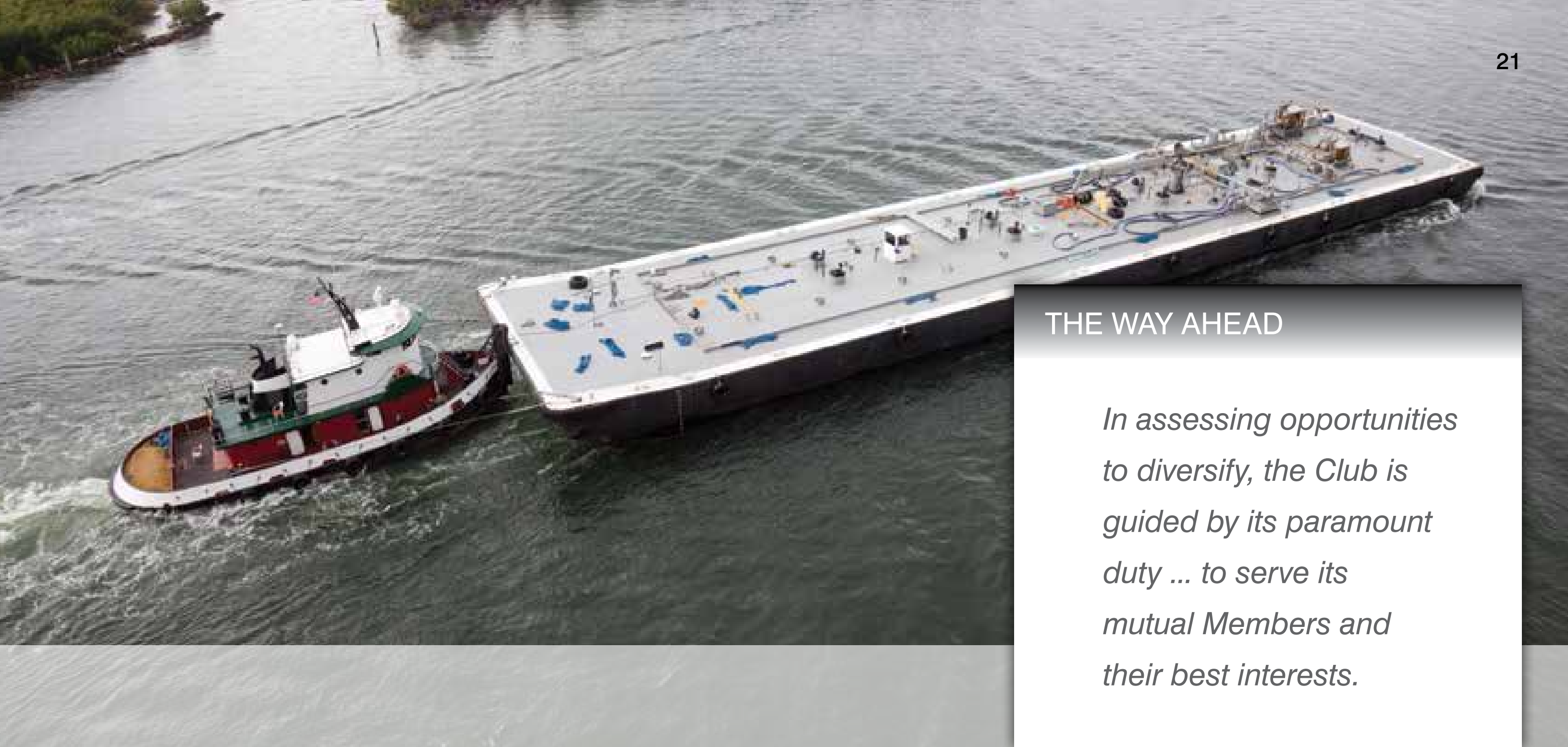
The Club also initiated a management review focused upon US domestic tug and barge operators involved in the transportation of crude and other persistent oils. The results of this survey indicate high standards of management among the Club's US membership.

The Club's commitment to high quality training material also continued with vigor. As before, this involved cooperation with IDESS Interactive Technologies, Inc. New material included modules on the 2013 US Vessel General Permit and Small Vessel General Permit regulations, together with the first two of a five part series on bulk carrier safety and cargoworthiness. Specifically, these concerned the International Maritime Solid Bulk Cargoes (IMSBC) Code and the Code of Practice for the Safe Loading and Unloading of Bulk Carriers (BLU Code).

A major initiative in regard to the handling of cargoes of rice was commenced in 2013 and is planned for completion in mid-2014. Entitled ***Transport Guidance for Bagged Rice***, the document aims to share with Members – and other interested parties – best practice in the handling and transportation of this important, globally-traded food commodity.

In addition to the training tools described above, the Club undertook an extensive seminar program during 2013. Presentations focused on the implications for shipowners of the Maritime Labor Convention, 2006 and on the hazards of carrying cargoes prone to liquefaction, especially nickel ore.

The Club also continued its outreach to Members on matters of loss prevention through publication of its ***Currents*** newsletter, and through the issuing of various Circulars and Member Alerts.



THE WAY AHEAD

In assessing opportunities to diversify, the Club is guided by its paramount duty ... to serve its mutual Members and their best interests.

The Way Ahead – Tradition, Innovation, Service

The business model for the provision of third party liability insurance as provided by International Group mutuals has remained essentially the same since the middle of the nineteenth century.

Over the years, the system has survived every vicissitude of the evolving geopolitical, economic and regulatory environment. This speaks to the strength not only of the clubs individually, but also of the International Group consumer collective of which they form part.

There has of course been change in the manner in which clubs conduct their business in recent years, even if their core activity has seen little variation. The trend toward product diversification is a case in point. This reflects a growing consensus that the broadening of insurance services and revenue is desirable in the long run, a view at least implicitly encouraged by agencies such as Standard & Poor's which appear to regard commercial diversity as a positive in their rating decisions.

The American Club shares this outlook, but not that it should apply in all circumstances, or at any price. In assessing opportunities to diversify, the Club is guided by its paramount and prevailing duty to serve its mutual Members and their best interests.

Nevertheless, as the success of the Eagle Ocean Marine facility demonstrates, a sensible exploitation of market dynamics can be achieved. The American Club will continue to develop appropriate opportunities in the right circumstances. In the meantime, it will continue to dedicate itself to its core mission, at the heart of which lies a commitment to service.

In this connection, the American Club undertook a Member and broker satisfaction survey in the middle of 2013. Its aim was to determine the Club's performance across a wide range of service indicators. The survey was coordinated by an independent market research company and carried out over several weeks from the beginning of July 2013.

Following the analysis of its results, the survey indicated a generally high level of satisfaction with Club service. Members scored the Club at an average of 8.1 out of 10 across all indicators. A satisfaction rating of 8 out of 10 or above is regarded as very good by reference to the standards of business-to-business surveys in general.

Members viewed the Club most positively for its speed and efficiency of claims resolution, staff quality, relationship strengths and business culture. In all of these important areas, over six out of ten respondents regarded the American Club as being one of the top three performers within the International Group.

The results were notified to Members by Circular in late September 2013. It was gratifying that the Club appeared to be performing well in regard to the service it provided. Nevertheless, the lessons learned from the survey continue to be reviewed and applied to the changing circumstances of the Club and the business environment in which it operates.

All this is progress. Yet nothing stays the same. Despite the gains made in recent years, and endorsed by the recent survey, further progress will require ever deeper commitment by the Managers and the Board to respond to the inevitable challenges of the years ahead.

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

2013 FINANCIAL REPORT

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Independent Auditors' Report

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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. and its subsidiary (the "Association"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, 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, 2013 and 2012, 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 40-43 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 18, 2014

Consolidated Balance Sheets

IN THOUSANDS	NOTE	DECEMBER 31 2013	2012
ASSETS			
Investments	3	**$ 238,825**	$ 233,406
Cash and cash equivalents		**19,805**	22,098
Members' balances receivable		**8,061**	26,250
Reinsurance recoverable	5	**44,411**	55,993
Derivative assets	3	**2,584**	—
Other assets	4	**15,026**	21,363
Total Assets		**$ 328,712**	$ 359,110
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES:			
Unpaid losses and allocated loss adjustment expenses	5	**$ 183,948**	$ 220,814
Unreported losses	5	**41,597**	42,749
Unearned premiums		**17,261**	17,142
Reinsurance payable		**6,412**	7,920
Derivative liabilities	3	**1,218**	—
Other liabilities	4	**20,932**	16,256
Total Liabilities		**$ 271,368**	$ 304,881
COMMITMENTS AND CONTINGENCIES			
MEMBERS' EQUITY:			
Retained earnings		**45,663**	43,010
Accumulated other comprehensive income		**11,681**	11,219
Total Members' Equity	9, 10	**57,344**	54,229
Total Liabilities and Members' Equity		**$ 328,712**	$ 359,110

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations and Comprehensive Income

IN THOUSANDS	NOTE	DECEMBER 31 2013	2012
INCOME			
Net premiums and assessments earned	6	$ 89,378	$ 93,541
Net investment income		3,693	4,500
Net realized investment gains		9,165	3,972
Net realized and unrealized gains on derivatives		970	—
Total Income		103,206	102,013
EXPENSES			
Losses and loss adjustment expenses incurred	5	65,064	83,265
Other operating expenses	7	35,250	31,995
Total Expenses		100,314	115,260
Income (loss) Before Income Taxes		2,892	(13,247)
Income tax provision		(239)	(360)
Net Income (loss)		2,653	(13,607)
OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Unrealized gains on investments		462	7,617
Other comprehensive income		462	7,617
Comprehensive Income (loss)		$ 3,115	$ (5,990)

Consolidated Statements of Changes in Members' Equity

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2012		$ 56,617	$ 3,602	$ 60,219
Net loss		(13,607)	—	(13,607)
Unrealized investment gains		—	7,617	7,617
Balance, December 31, 2012		43,010	11,219	54,229
Net income		2,653	—	2,653
Unrealized investment gains		—	462	462
Balance, December 31, 2013	9, 10	$ 45,663	$ 11,681	$ 57,344

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

IN THOUSANDS	DECEMBER 31 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss)	$ 2,653	$ (13,607)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of bond premiums	2,079	1,997
Net realized invesment gains	(9,165)	(3,972)
Net realized and unrealized gains on derivatives	(970)	—
Depreciation	99	129
	(7,957)	(1,846)
Changes in operating assets and liabilities:		
Members' balances receivable	18,189	2,394
Reinsurance recoverable	11,582	5,071
Other assets	6,324	(6,002)
Unpaid and unreported losses and allocated loss adjustment expenses	(38,018)	1,661
Unearned premiums	119	(336)
Reinsurace payable	(1,508)	1,324
Other liabilities	(329)	(604)
	(3,641)	3,508
Net cash used in operating activities	(8,945)	(11,945)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales/maturities of investments	147,665	125,121
Purchases of investments	(145,931)	(121,769)
Purchases of fixed assets	(82)	(43)
Net cash provided by investment activities	1,652	3,309
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	5,000	5,000
Net cash provided by financing activities	5,000	5,000
Net change in cash and cash equivalents	(2,293)	(3,636)
Cash and cash equivalents, beginning of year	22,098	25,734
Cash and Cash Equivalents, End of Year	$ 19,805	$ 22,098
Supplemental Information:		
Income taxes paid	$ 315	$ 381
Interest paid	$ 203	$ 188

See Notes to Consolidated Financial Statements.

2013 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 2013 and 2012 policy years, at December 31, 2013 and December 31, 2012, the gross tonnage insured was 15,770,520 and 15,483,051, 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 ("EOM"), under a management contract with SCB. EOA provides administrative, underwriting, accounting and claims processing services on a commission basis.

EOM provides an insurance option for operators of smaller vessels 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.

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.

The Association has purchased over-the-counter ("OTC") equity market derivatives based on the S&P 500 equity market index that are exchange-traded options. These equity index options are to hedge certain invested assets against changes in the equity indices. These derivatives have not been designated as fair value hedges and therefore do not meet the criteria for hedge accounting treatment. These derivatives are carried at their estimated fair value with changes in estimated fair value being reported in earnings on a separate line item as net realized and unrealized gains (losses) on derivatives.

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. For fixed maturity securities in an unrealized loss position, an other-than-temporary impairment ("OTTI") is recognized in earnings when it is anticipated that the amortized cost will not be recovered. When either: (i) the Company has the intent to sell the security; or (ii) it is more likely than not that the Company will be required to sell the security before recovery, the OTTI recognized in earnings is the entire difference between the security's amortized cost and estimated fair value. If neither of these conditions exist, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings ("credit loss"). If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of OTTI related to other-than-credit factors ("noncredit loss") is recorded in OCI.

With respect to equity securities, 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. 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 – As a practical expedient, we estimate fair vale using the NAV reported by the external fund manager, based on the fair value of the underlying assets in the fund using a consistently applied three-month lag period adjusted for any significant changes from the lag period to the reporting date of the Association.

Derivatives – The estimated pair value of exchange-traded derivatives is determined through the use of quoted market prices.

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, furniture and fixtures, software, leasehold improvements 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 Assessments Written – The statements of operations include those premiums which have been billed in the respective 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 are 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's adoption of ASU 2011-11 does not have a material impact on the consolidated financial statements.

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, 2013. 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, 2013 and 2012 were as follows:

	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2013				
US Treasury and obligations of other US government corporations and agencies	$ 6,673	$ 24	$ 10	$ 6,687
Obligations of states and political subdivisions	121,139	1,003	1,955	120,187
Industrial and miscellaneous bonds	4,167	31	15	4,183
Common stocks	92,908	14,820	2,644	105,084
Other invested assets	2,349	379	44	2,684
Total	**$ 227,236**	**$ 16,257**	**$ 4,668**	**$ 238,825**

	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 miscellaneous 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**

Derivatives

The Association may be exposed to various risks related to its ongoing business operations, including interest rate, credit risk and equity market risk. The Association uses different strategies to manage these risks. In 2013, with guidance from the Association's investment advisor and the Board of Directors, the Association purchased exchange-traded equity market derivatives as part of this strategy to mitigate these risks.

Exchange-traded equity index options are used by the Association to hedge certain invested assets against adverse changes in the equity indices. In an equity index option transaction, the Association enters into contracts to buy and sell the equity index within a limited time at a contracted price. The contracts will be net settled in cash, based on differentials in the indices at the time of exercise and the strike price. In certain instances, the Association may enter into a combination of transactions to hedge adverse changes in equity indices within a predetermined range through the purchase and sale of options. These hedging activities have not been designated as specific hedges for financial reporting purposes.

The table below provides a summary of the notional amount estimated fair value and primary underlying risk exposure by type of derivative held at December 31, 2013:

Primary Underlying Risk Exposure	Instrument Index	Notional Amount	Estimated Fair Value
Equity market	Equity index options - purchased	$ 22,888	$ 2,584
Equity market	Equity index options - written	$ (27,106)	$ (1,218)

The Association did not hold any derivatives assets or liabilities at December 31, 2012.

The following summarizes unrealized investment losses by class of investment at December 31, 2013 and 2012. 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, 2013						
Government obligation	$ 742	$ 10	$ —	$ —	$ 742	$ 10
Obligations of states and political subdivisions	48,899	1,877	1,868	78	50,767	1,955
Industrial and miscellaneous bonds	872	15	—	—	872	15
Common stocks	26,468	757	8,137	1,887	34,605	2,644
Other invested assets	420	44	—	—	420	44
	$ 77,401	$ 2,703	$ 10,005	$ 1,965	$ 87,406	$ 4,668

	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
Common stocks	19,139	1,808	3,230	559	22,369	2,367
	$ 35,631	$ 2,042	$ 3,587	$ 565	$ 39,218	$ 2,607

The fair value and amortized cost of available-for-sale debt securities at December 31, 2013 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	$ 10,527	$ 10,543
Due after one year through five years	55,836	56,312
Due after five years through ten years	52,375	51,152
Due after ten years	13,241	13,049
Total	**$ 131,979**	**$ 131,056**

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

	2013	2012
Proceeds from sales of investments	$ 145,962	$ 119,576
Gross realized gains	11,362	6,790
Gross realized losses	2,197	2,818

There were realized losses in the amount of approximately $151 thousand recorded for the year ended December 31, 2013 that were a result of an investment being other-than-temporarily impaired.

At December 31, 2013 and 2012, United States Government Treasury notes in the amount of $310 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, 2013:

		FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2013		
	TOTAL FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
ASSETS				
US Treasury and obligations of other US government corporations and agencies	$ 6,687	$ 6,687	$ —	$ —
Obligations of states and political subdivisions	120,187	194	119,993	—
Industrial and miscellaneous bonds	4,183	—	4,183	—
Common stocks	105,084	105,064	—	20
Derivatives	2,584	2,584	—	—
Other invested assets	2,684	—	—	2,684
Total	**$ 241,409**	**$ 114,529**	**$ 124,176**	**$ 2,704**
LIABILITIES				
Derivatives	$ 1,218	$ 1,218	$ —	$ —

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2012

	TOTAL FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
ASSETS				
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
Other invested assets	1,348	—	—	1,348
Total Investments	**$ 233,406**	**$ 104,638**	**$ 127,400**	**$ 1,368**

During the year ended December 31, 2013 and 2012 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, 2013 and 2012:

YEAR ENDED DECEMBER 31, 2013

	COMMON STOCKS	OTHER INVESTED ASSETS	TOTAL
Opening balance January 1, 2013	$ 20	$ 1,348	$ 1,368
Total gain or losses included in earnings: (realized/unrealized)			
Realized gains	—	70	70
Change in fair value of other invested assets	—	139	139
Purchase or (sales):			
Purchase	—	1,350	1,350
Sales	—	(223)	(223)
Transfer in (out) of Level 3	—	—	—
Ending balance, December 31, 2013	**$ 20**	**$ 2,684**	**$ 2,704**

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
Purchase 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**

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, 2013:

	YEAR ENDED DECEMBER 31, 2013			
		FAIR VALUE	PRINCIPAL VALUATION TECHNIQUES	UNOBSERVABLE INPUT
Other Investments				
Other invested assets	$	2,684	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

		2013		2012
Other Assets				
Computer equipment and software - net of accumulated depreciation of $6,159 and $6,060, respectively	$	258	$	276
Receivable for securities sold		214		222
Accrued interest receivable		2,339		1,357
Income tax recoverable		105		83
Prepaid reinsurance premiums		3,902		4,266
Management fee receivable		1,365		1,299
Loan receivable		—		4,950
Other assets		6,843		8,910
	$	**15,026**	**$**	**21,363**
Other Liabilities				
Accrued expenses		692		975
Liability for securities purchased		214		240
Note payable, including accrued interest		20,026		15,021
Income tax payable		—		20
	$	**20,932**	**$**	**16,256**

An unbilled assessment in the amount of $6.1 million and $6.8 million at December 31, 2013 and 2012, respectively, included in other assets in the table above, was recorded as a result of the Association's asbestos-related claims settlement agreement as described in Note 8.

At December 31, 2013 and 2012 the Association owed $20 million and $15 million, respectively, on a demand line of credit from Deutsche Bank Trust Company America ("credit facility"). During 2013, 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 1.24 at December 31, 2013. Interest accrued at December 31, 2013 and 2012 was $26 thousand and $21 thousand, respectively. Interest expense paid for the years ended December 31, 2013 and 2012 was $203 thousand and $188 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:

		2013		2012
Gross balance at January 1	$	263,563	$	261,902
Less reinsurance recoverable on unpaid losses		49,358		55,717
Net Balance at January 1		**214,205**		**206,185**
Incurred related to:				
Current year		68,287		63,762
Prior years		(3,223)		19,503
Total Net Incurred		**65,064**		**83,265**
Paid related to:				
Current year		13,086		6,189
Prior years		82,592		69,056
Total Net Paid		**95,678**		**75,245**
Net balance at December 31		**183,591**		**214,205**
Plus reinsurance recoverable on unpaid losses		41,954		49,358
Gross Balance at December 31	**$**	**225,545**	$	**263,563**

In 2013, favorable development for prior years was $3.2 million. The favorable development was reduced by an emergence of $5.7 million for the 2012 policy year, of which 10.3 million was expected emergence based on the earned premium of the 2012 policy year ended February 20, 2013. However, there was favorable emergence of $8.9 million for policy years 2011 and prior. A decrease due to re-estimation of prior year's losses is generally a result of ongoing analysis of recent loss development trends as well as claim reviews on specific files.

In 2012, loss emergence 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 development based on the earned premium of the 2011 policy year ended February 20, 2012. However, there was unfavorable development of $7.9 million for policy years 2010 and prior.

Original estimates are increased or decreased as additional information becomes known regarding individual claims.

A fluctuation in reserves within a reasonable actuarially calculated range of those carried by the Association at December 31, 2013 could materially impact members' equity. There are points within this loss reserve range which, if carried at the liability, may reduce members' equity by approximately 27% at the mid-point of the range.

		2013		2012
Reinsurance recoverable on unpaid losses	$	41,954	$	49,358
Reinsurance recoverable on paid losses		2,457		6,635
	$	**44,411**	$	**55,993**

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:

		2013		2012
Direct	$	58,560	$	76,167
Assumed		14,353		22,634
Ceded		(7,849)		(15,536)
	$	**65,064**	$	**83,265**

6. Premiums and Assessments

	2013	2012
Premiums written and billed assessments	$ 110,598	$ 108,032
Change in unbilled assessments	(735)	3,844
Return premiums	(1,421)	(1,470)
Reinsurance premiums ceded	(18,581)	(18,585)
Net premiums and assessments written	**89,861**	**91,821**
(Increase) decrease in net unearned premiums	(483)	1,720
Net Premiums and Assessments Earned	**$ 89,378**	**$ 93,541**

In December 2013, an unbilled assessment in the amount of $6.1 million was recorded as a result of the Association's asbestos-related claims settlement agreement as described in Note 8.

7. Other Operating Expenses

	2013	2012
Management fee	$ 15,475	$ 14,898
Bad debts	3,697	1,901
Brokerage	10,142	9,537
Other	5,936	5,659
Total Other Operating Expenses	**$ 35,250**	**$ 31,995**

8. Commitments and Contingencies

Letters of Credit – At December 31, 2013, the Association had outstanding letters of credit for $12.4 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.

	2013	2012
Asbestos-Related Claims		
Aggregate gross losses paid to date at December 31	$ 11,609	$ 10,809
Loss reserves - reported	1,590	2,020
Loss reserves - unreported	4,496	4,800

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 $5.7 million in payments as of December 31, 2013. This represents a one-time $900 thousand payment related to 2006 as well as six payments of $800 thousand related to the 2007 through 2012 years. Additionally, the Association has made another $800 thousand payment in January 2014 related to 2013.

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 (the "Department") on the basis of accounting practices prescribed or permitted by the 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 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 fixed income security investments are listed at book/adjusted carrying value. Under statutory accounting practices, the Association is required to report the statement value of its fixed income security investments at book/ adjusted carrying value. Under accounting principles generally accepted in the United States of America, such investments are recorded at fair market value.

Statutory ULAE adjustment - Under statutory accounting practices, the Association records an ULAE reserve related to indirect costs of running off the Association's unpaid and unreported losses. Under GAAP, 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 Department to Members' equity on the basis of accounting principles generally accepted in the United States of America is as follows:

	2013	2012
Statutory surplus, as reported	$ 63,621	$ 63,792
Future assessments receivable up to difference between ultimate and present value of losses	(19,783)	(22,550)
Unbilled assessments, net	6,086	6,820
Nonadmitted assets and other reconciling items	1,393	5,152
Carrying value of applications software and consultants' fees	120	142
Provision for unauthorized reinsurance	231	320
Reinsurance Premium: Ceded recovery	1,182	—
Allowance for doubtful accounts	(743)	(743)
Unrealized gains (losses) on available-for-sale securities	6,566	3,102
Statutory ULAE Adjustment	3,570	3,488
Hydra consolidation adjustment	(7,517)	(5,294)
Statutory audit adjustment	2,618	—
Members' Equity on the Basis of Accounting Principles Generally Accepted in the United States of America	**$ 57,344**	**$ 54,229**

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

During 2013, the Association received an examination report from the Department relating to the five year examination ended December 31, 2010. Based upon the results of the examination, the Department asserted that the Association's loss and loss adjustment expense reserves were understated at December 31, 2010 by $11. 9 million using the Schedule P development patterns from the statutory annual statement filed with the Department. While the Association's booked statutory loss and loss adjustment expense reserves were within its independent actuary's ultimate loss development range, the statutory adjustment was accepted by the Association to finalize the report. The final net examination adjustment accepted by the Association reduced the December 31, 2010 statutory surplus by $11.1 million from $71.4 million to $60.3 million. The adjusted examination surplus remained substantially above the required minimum statutory surplus of $7.5 million, and well above the Risk Based Capital Company Action Level of $40.8 million.

The Association believes that the statutory reserves adjustment does not have an impact on the GAAP financial statements for the year ended December 31, 2010. The loss reserves reported were within the independent actuarial range at the time and moved further into the range when reviewed through the statutory examination report filed in the 3rd quarter, 2013.

10. 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 2013 and 2012 was approximately $738 thousand and $728 thousand, respectively. Future minimum rental payments, excluding any sublease income, are as follows:

YEAR	AMOUNT
2014	133

On March 13, 2014, after negotiation with the landlord and mutual agreement, the Association terminated the above referenced lease. The Association's managers have signed a new lease in which they are the named tenant. The lease commences on March 1, 2014 and expires September 30, 2029. The Association is the guarantor of this lease agreement. The value of the guarantee over the term of the lease is approximately $18.3 million.

11. 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, 2013.

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, 2013 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 19.3% recorded for the five years ended December 31, 2012.

12. Subsequent Events

Subsequent events have been considered through June 18, 2014 for the audited financial statements to be issued on that date. No other events occurred subsequent to December 31, 2013, through June 18, 2014, 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, 2013 and 2012

	P&I		FD&D	
IN THOUSANDS	2013	2012	2013	2012
INCOME				
Net premiums and assessments earned	**$ 85,283**	$ 89,449	**$ 4,095**	$ 4,092
Net investment income	**3,524**	4,303	**169**	197
Net realized investment gains	**8,745**	3,798	**420**	174
Net realized and unrealized gains on derivatives	**926**	—	**44**	—
Total Income	**98,478**	97,550	**4,728**	4,463
EXPENSES				
Losses and loss adjustment expenses incurred	**61,596**	78,827	**3,468**	4,438
Other operating expenses	**33,635**	30,595	**1,615**	1,400
Total Expenses	**95,231**	109,422	**5,083**	5,838
Income (loss) Before Income Taxes	**3,247**	(11,872)	**(355)**	(1,375)
Income tax provision	**(228)**	(344)	**(11)**	(16)
Net Income (loss)	**3,019**	(12,216)	**(366)**	(1,391)
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gains on investments	**441**	7,284	**21**	333
Other comprehensive income	**441**	7,284	**21**	333
Comprehensive (loss) Income	**$ 3,460**	$ (4,932)	**$ (345)**	$ (1,058)

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, 2013 and 2012

IN THOUSANDS	2013	2012
NET CLAIMS PAID		
Gross claims paid:		
Members' claims	**$ 93,220**	$ 74,933
Other Clubs' Pool claims	**17,712**	22,206
	110,932	97,139
Recoveries on claims paid:		
From the Group excess of loss reinsurance	**23**	16
From the Pool	**(1,364)**	7,182
Other reinsurers	**16,596**	14,696
	15,255	21,894
Net Claims Paid	**$ 95,677**	$ 75,245

IN THOUSANDS	2013	2012
CHANGE IN NET PROVISION FOR CLAIMS		
Claims outstanding:		
Members' claims	**$ 181,597**	$ 216,256
Other Clubs' Pool claims	**43,948**	47,307
	225,545	263,563
Reinsurance recoverables:		
From the Group excess of loss reinsurance	**401**	411
From the Pool	**18,633**	17,915
Other reinsurers	**22,920**	31,032
	41,954	49,358
Net claims outstanding at December 31	**183,591**	214,205
Net claims outstanding at January 1	**214,205**	206,185
Change in Net Provision for Claims	**$ (30,614)**	$ 8,020

Unaudited Supplemental Schedules

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 2010/11 policy year was closed on March 31, 2013, 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 bifurcate the closed policy years' and open policy years' surplus of the Association by establishing the contingent 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

	2011–12	2012–13	2013–14
INCOME			
Calls and premiums – net	$ 103,694	$ 96,270	$ 80,835
Investment income	4,962	3,256	1,958
Total Income	**108,656**	**99,526**	**82,793**
EXPENSES			
Net paid losses	47,090	34,051	12,611
Net pending losses	19,088	22,006	39,665
Unreported losses	2,590	13,289	15,535
Reinsurance premiums	13,248	17,702	15,303
Other operating expenses	23,155	24,426	20,626
Total Expenses	**105,171**	**111,474**	**103,740**
RETAINED EARNINGS (DEFICIT)	**3,485**	**(11,948)**	**(20,947)**
MEMBERS' EQUITY (DEFICIT): OPEN YEARS	**$ 3,485**	**$ (11,948)**	**$ (20,947)**

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

2011/12	$ 5,396
2012/13	$ 6,588
2013/14	$ 7,509

(b) For the 2012/13 policy years calls and premiums are stated on an earned basis to December 31, 2013. Expenses are stated on an accrued basis for the same period.

CLAIMS OUTSTANDING (INCLUDING UNREPORTED LOSSES) - OPEN YEARS

	2011–12	2012–13	2013–14
Gross outstanding claims			
Members' claims	$ 22,985	$ 26,277	$ 51,298
Other Club's Pool claims	2,818	13,840	11,393
	25,803	**40,117**	**62,691**
Pending reinsurance recovery			
From the Group excess of loss reinsurance	—	—	—
From the Pool	3,364	2,099	1,216
Other reinsurers	760	2,723	6,275
	4,124	4,822	7,491
Net Outstanding Claims	**$ 21,679**	**$ 35,295**	**$ 55,200**

DEVELOPMENT OF CLOSED POLICY YEARS AND CONTINGENCY FUND

	2013	2012
Closed Years' Balance, January 1	$ —	$ —
Total income earned	8,509	7,280
Net paid losses	35,935	28,697
Net pending losses	(33,135)	(22,071)
Unreported losses	(1,782)	1,678
Reinsurance premiums	(370)	68
Other operating expenses	(581)	—
Total expenses incurred	67	8,372
Unrealized investment gains	462	7,525
Transfer from closed policy year 2010/11	16,304	—
Transfer from closed policy year 2009/10	—	(7,226)
Net change	25,208	(793)
Transfer (to) from contingency fund	(25,208)	793
Closed Years' Balance, December 31	$ —	$ —
Contingency Fund Balance, January 1	$ 61,546	$ 62,339
Transfer from (to) closed policy years	25,208	(793)
Contingency Fund Balance, December 31	$ 86,754	$ 61,546
Open Policy Years' Equity (Deficit)		
2010/11	$ —	$ 13,873
2011/12	3,485	(5,426)
2012/13	(11,948)	(15,764)
2013/14	(20,947)	—
Total Members' Equity	$ 57,344	$ 54,229
Claims Outstanding (including IBNR) – Closed Years		
Gross pending losses		
Members' claims	$ 81,037	$ 100,683
Other Clubs' Pool claims	15,897	15,593
	96,934	116,276
Pending reinsurance recovery		
From the Group excess of loss reinsurance	401	411
From the Pool	11,954	14,575
Other reinsurers	13,162	16,194
	25,517	31,180
Net Pending Losses	$ 71,417	$ 85,096

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

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.

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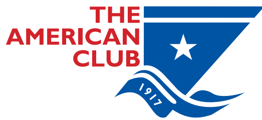
As of June 1, 2014



AMERICAN STEAMSHIP OWNERS MUTUAL
PROTECTION & INDEMNITY ASSOCIATION, INC.

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SHIPOWNERS CLAIMS BUREAU, INC.
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