THE AMERICAN CLUB 2004 ANNUAL REPORT

THE AMERICAN CLUB

HIGHLIGHTS

- 2004 presents early challenges: coincidental confluence of IT problems and supplementary calls create negative perceptions.
- Premium and tonnage nevertheless increase as 2004 renewal paves way for steady growth during the year.
- Revenue development remains strong: net written income for policy 2004 increases by more than 40% over previous year.
- 2004 sees tonnage exceed 20 million for the first time: trend continues at 2005 renewal as entered tons approach 22 million on projected annual premium of $150 million.
- Release in April 2004 of "Karachi Eight" held captive following TASMAN SPIRIT grounding secures favorable outcome to Club's efforts and wins praise from maritime community.
- Closing months of 2004 feature burgeoning financials: year-end cash and investments are 60% higher than 2003.
- Club gains industry recognition within days of latest renewal: wins 2005 Lloyd's List P&I / Insurance Services Award.
- Resources in New York and London expand: service capabilities amplified by establishment of Managers' Greek office in Spring 2005.
- Global liability climate remains problematic: poor juridical standards, political opportunism, oppressive use of criminal sanctions and attacks on established compensation regimes engender industry angst.
- While entire market faces challenging outlook, Club's resolute progress points to excellent prospects for the future.

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The graphic theme of this year's Annual Report reflects the rich abundance of maritime folklore from across the globe and through the ages. No enterprise in the history of mankind has authored a greater source of story-telling, custom, superstition and legend than that of seafaring. The pages which follow contain illustrated examples of some well-known maritime myths and traditions, the background to which may sometimes be surprising!

Cover: Old Salts told tales of a ghost ship appearing mysteriously in the dark of night. Was it a mirage? For certain, it was a harbinger of doom. The Flying Dutchman found this out when he attempted to round the Cape of Good Hope. Despite stormy conditions, the legendary captain vowed not to turn back. Instead, he gambled for safe passage in a game of dice with the devil. He, of course, lost. Now, he spends eternity haunting those notorious waters.

2004 developed in phases at the American Club. It opened with new highs in tonnage and premium income. But succeeding months brought several challenges. The Club encountered problems in embedding a new IT system, which created a delay in the filing of its accounts. There were unbudgeted calls for the 2000 through 2002 policy years. The Club decided to seek a declaratory judgment as to its treatment of unreported and unreserved claims in years prior to 1989. The confluence of these entirely unrelated circumstances created some negative perceptions. Yet later in the year the Club's fortunes improved substantially. Tonnage and premium continued to grow. Despite patchy capital markets, the Club's funds under investment increased impressively. The 2005 renewal featured further development and the consolidation of gains made in recent years. Days later, the Club won the 2005 Lloyd's List P&I / Insurance Services Award, a signal honor. Reflecting on challenges past and refortified for those ahead, the Club looks forward to a bright future dedicated to the service of its Members.

From left to right:
George Alagiah, *(BBC television presenter)*,
Derek Hodgson, *(Partner, Clyde & Co., award sponsors)*
Paul Sa, *(Chairman, American Club)* and
Julian Bray, *(Editor, Lloyd's List)*

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, 2004.

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

The Club's Annual Meeting took place in New York City on June 17, 2004. At that meeting, Mr. Paul Sa of Standard Shipping, Inc. was re-elected as Chairman. Mr. James P. Sweeney of Penn Maritime, Inc. was re-elected as Deputy Chairman. Mr. Lawrence J. Bowles was re-appointed as General Counsel to the Club and Mr. Joseph E.M. Hughes, the Chairman and CEO of the Managers, was re-appointed as Secretary.

In addition, the following gentlemen were elected as new Directors: Mr. Vassilios Bacolitsas of Sea Pioneer Shipping Corp., Athens; Mr. Keith Denholm of Pacific Carriers Limited, Singapore; and Mr. Victor S. Restis of Enterprises Shipping & Trading S.A., Athens. They were welcomed most warmly to the Board, knowing that they would make a great contribution to its affairs over the years to come. A full list of current Directors – and the Secretary – is set out on the inside of the back cover.

In addition to their participation in the Annual Meeting, the Directors convened on four other occasions during 2004. Three meetings took place in New York while the fourth was held in Hong Kong in November, being the Board's customary "out-of-town" session.

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

- Election of Directors.
- Policy year accounts.
- Settlement of claims of the Club's Members.
- Settlement of International Group of P&I Clubs' Pool claims.
- Setting of premium levels for the subsequent policy year.
- Commencement of an action seeking a declaratory judgment as to the treatment of unreserved and unreported claims in policy years prior to 1989.
- Reinsurance, including the establishment of the International Group's segregated cell captive reinsurer, Hydra Insurance Company Limited.
- Investment policy.
- Outcome of renewal negotiations.
- Budgeting policy for relevant policy years.
- Changes to the Club's Rules.
- Reports of the business of the Managers' London liaison office and the implications of new EU regulations.
- Establishment of the Managers' liaison office in Greece.
- Development of the Club's new IT System.
- Club publications.
- Meetings of Managers of the International Group of P&I Clubs.
- Developments in international shipping regulations.

The Club continued to benefit from meetings of the Finance, and Safety and Environmental Protection Committees. Under the auspices of the latter, a further edition of Currents – the Club's in-house newsletter – was published, as were reports of the proceedings of the International Maritime Organization (IMO)'s Marine Safety Committee and Marine Environmental Protection Committee.

A well-received initiative was the publication of an easy-to-read booklet entitled Preventing Fatigue which, distilling the IMO's Guidelines for Preventing Fatigue into a more compact format, was widely distributed for both shipboard use and for reference ashore. Other safety and claims control information was disseminated through the Club's web-based Member Alert system and through Circulars, while the Club's initiative in recruiting clinics in the Ukraine and the Philippines for the systematic implementation of Pre-Employment Medical Examinations (PEMEs) has proved to be a great success. These are described in greater detail in the Report of the Managers.

On the investment front, the Finance Committee continued to review the Club's strategy and received regular reports from the Club's investment advisors in order to monitor the optimum posture for the commitment of the Club's funds. Again, this subject is dealt with in greater detail in the Report of the Managers.

The Directors take this opportunity of thanking the Members for their continuing support of the Club. Thanks are also due to the many others who worked hard in 2004 to progress its aims in sometimes difficult circumstances. Despite those difficulties, 2004 was a year of further achievement.

Nor could there have been clearer evidence than that which emerged only a few days after the new policy year had begun. On February 24, 2005, at a glittering event in London attended by leading personalities from throughout the maritime world, the American Club won the Lloyd's List P&I / Insurance Services Award for 2005. Following on the heels of a successful renewal, this was cause for celebration indeed.

Your Board knows that challenges lie ahead not only for the American Club but for the industry as a whole. Nevertheless, the results of the most recent renewal – as well as the many other positive factors impacting the Club's business at the current time – speak to the great promise which the future undoubtedly holds.

According to legend, a kraken was a gigantic sea monster. With its many arms, the creature could wrap itself around a sailing ship and capsize it. The crew might have hoped for drowning in preference to being eaten by the monster. The mythical kraken is probably the giant squid: an aggressive mollusk large enough to wrestle a sperm whale. Bearing in mind the diminutive size of an early ship, an angry sixty-foot long squid might have been able to overturn it.

REPORT OF THE MANAGERS

Tales of mermaids and sirens form a large part of seafaring lore. A mermaid was half fish and half woman; a siren was half bird and half woman. Both had magical powers and loved to sing. Doomed to live long lives as mortals without souls, they sought the living for company. Famously, Odysseus, Homer's epic hero, bound himself to the mast in order to escape the dangerously sweet song of the sirens.

2004 was a mixed year for the American Club. It began well. The renewal saw further growth in premium and tonnage, continuing the positive trends of earlier years. But the months which followed saw challenges which required foresight and resolve in confronting and overcoming them.

However, as the year progressed the Club's circumstances began to improve substantially. It was able to consolidate its position in several areas and continued to gain momentum in many others.

Entered Tonnage, Underwriting and Reinsurance

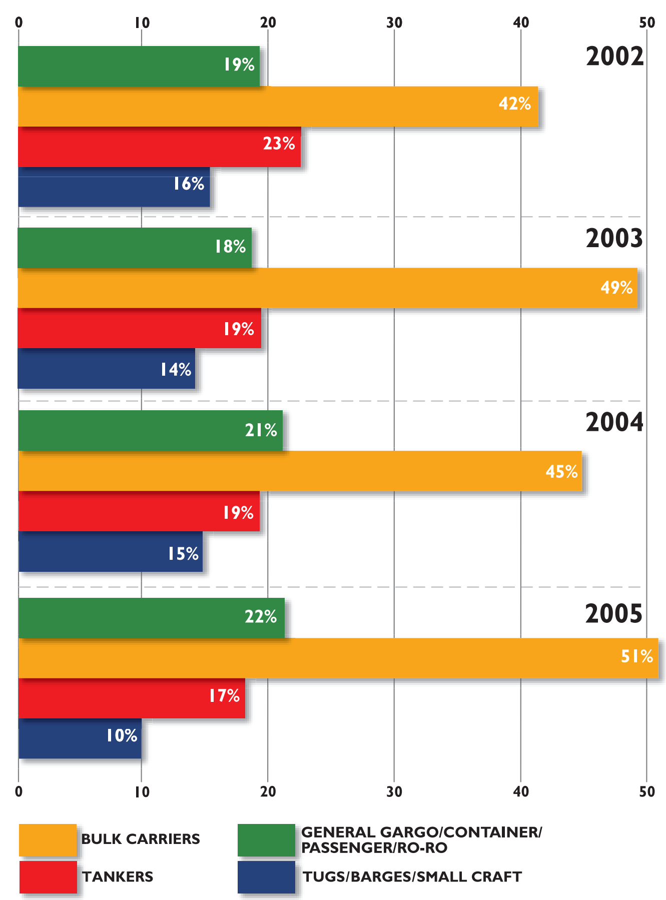
The 2004 renewal once again featured growth in entered tonnage. February 20 saw total entries rising to just under 20 million gross tons – a record figure. In addition to the uplift in tonnage, premium volume also increased. Net written premium for 2004 was about $123 million, an increase of some 43% over the prior year.

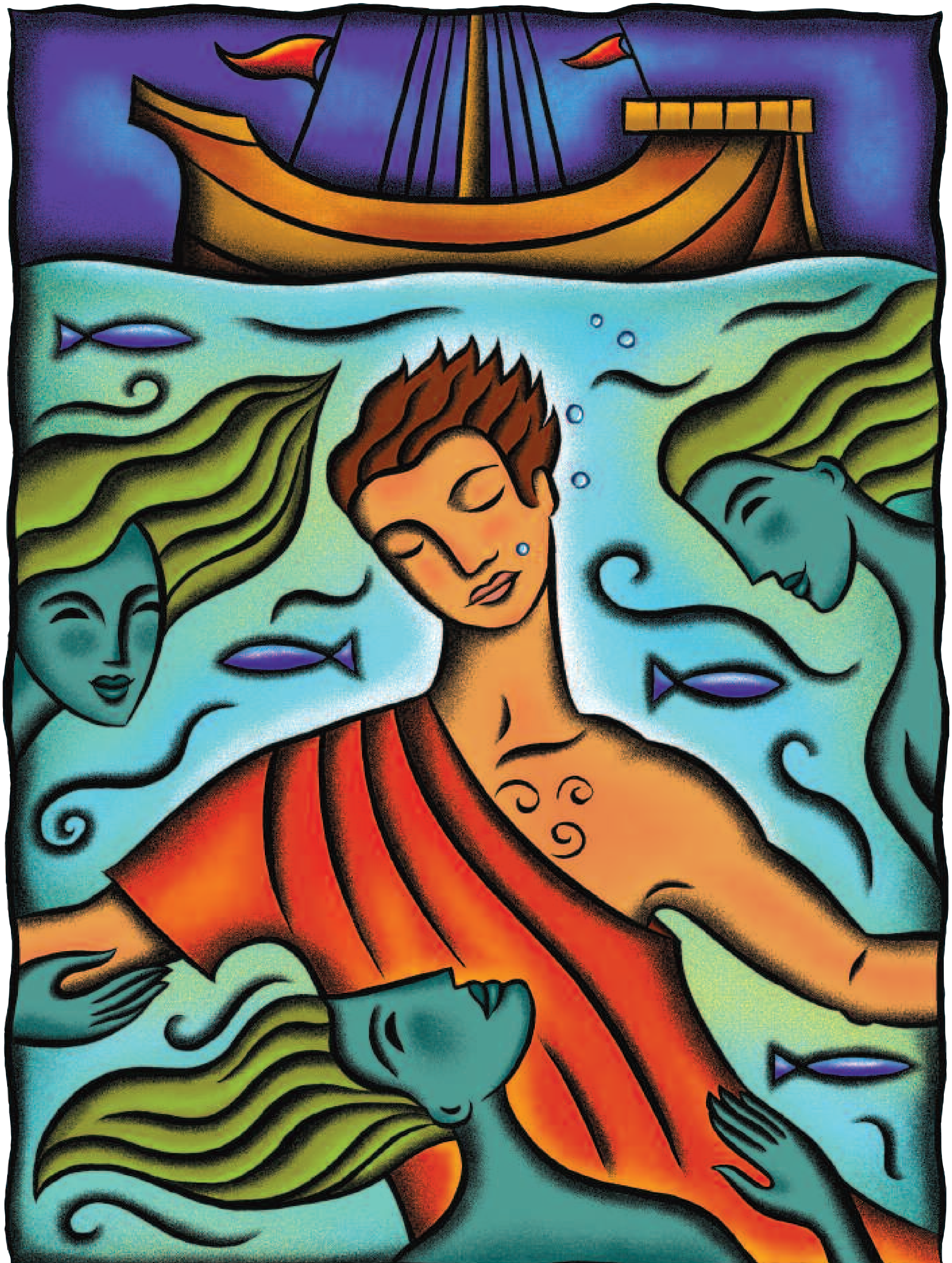
This premium growth was a function of the Directors having ordered a 17.5% general increase on expiring rates for 2004. But it was also a result of new business development. And for 2004 the Board had determined that the Advance Call for all classes of mutual business represent the estimated total premium for the year – i.e. that there should be a zero supplementary call forecast at its commencement. This created a cash flow benefit for the Club, and has been continued into 2005.

The February 20, 2005 renewal continued the Club's progress of recent years, although on a more modest scale by way of tonnage growth. It experienced a net gain of about 600,000 gross tons which, inclusive of intrinsic development during the preceding twelve months, saw total entries at just under 22 million gross tons. This figure – calculated on the basis of actual rather than a notional entered tonnage for units of less than 1500 tons – represents another record. As to revenue, the Club projects a gross written premium of some $150 million for 2005.

Prior to the renewal, the Directors had ordered that a 10% general increase be applied to all premium ratings for the new year. It is pleasing to report that, irrespective of changes in conditions, an overall increase of 10.5% was obtained on renewing tonnage.

OWNED AND CHARTERED TONNAGE BY VESSEL TYPE





As to the analysis of the Club's membership by way of vessel type, the proportion of entries attributable to owners' and charterers' insurances and by reference to management domicile, the relevant tables are set out on pages 6, 12 and 13 respectively.

The Club's reinsurance arrangements during 2004 remained essentially unchanged from those of 2003 save for the Pool retention being increased from $30 million to $50 million, resulting in a premium saving of approximately $32 million for the first $500 million layer of excess cover. This saving was to be used as pre-funded premium for the new $20 million Pool layer – along with the net retained premium from the 25% co-insured element of the first tranche of the market program. The premium was to be allocated to the International Group's new Bermuda-based cell-captive Hydra Insurance Company Ltd. which was intended to become operational during 2004.

In the result, Hydra did not begin operations until February 20, 2005. The manner and intent of its activity is described in further detail below.

Hydra aside, the major change as to the International Group's arrangements for 2005 is the increase in individual club retentions from $5 million to $6 million. Otherwise, the familiar four-layered (in cumulative tranches of $500 million each) structure of the program has been maintained, providing a total $2 billion cover for non-oil pollution risks and $1 billion for oil pollution cover. The price of the cover remains essentially unchanged for 2005 by contrast with the cost for the previous year (a small increase in the top layers being offset by a reduction in the lower), although there has been a marginal reallocation of rating across vessel categories.

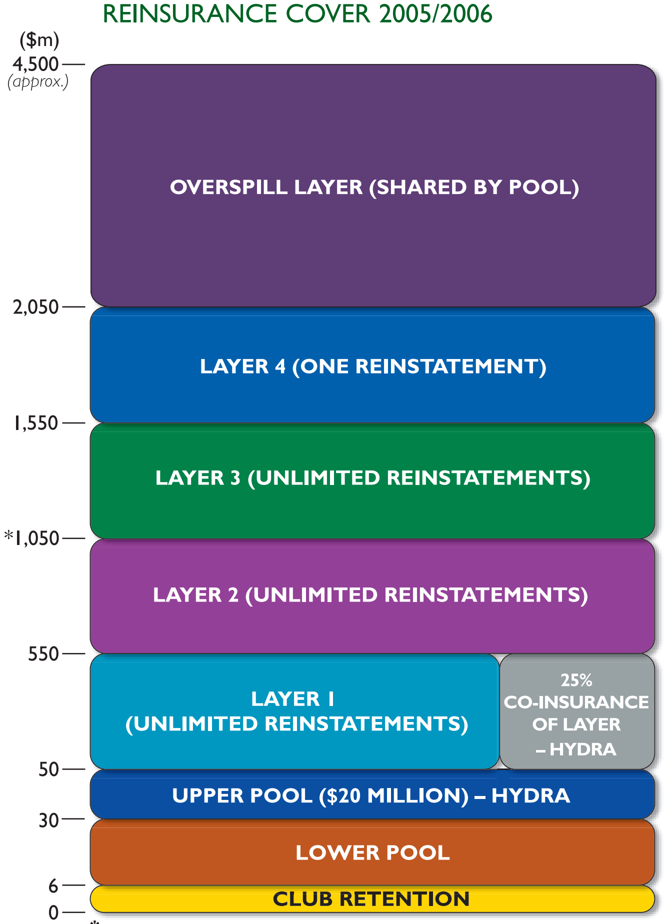
Following a review of the cost of oil spills dating back to 1990 – commissioned by the Group's Reinsurance Sub-Committee so that an informed view could be taken of the validity of the existing tariff – it was decided to reduce the U.S. Oil Pollution Voyage Surcharge by 7.5% for the 2005 policy year.

St. Elmo's Fire is a hot ionized gas that forms during thunderstorms around the tips of raised conductors, such as a ship's mast. Descriptions of the phenomenon vary from a ghostly dancing flame to loud fire works. St. Elmo's Fire was regarded as a good omen because it tended to occur in the last stages of severe thunderstorms. Thus, it was interpreted as the answer to sailors' prayers to St. Elmo—the patron saint of early Mediterranean sailors—for heavenly intervention.

As mentioned above, the establishment of Hydra Insurance Company Ltd. in Bermuda is an initiative of the International Group with the strategic intention of permitting it greater flexibility, over time, in modeling more self-reliant reinsurance solutions and reducing its dependence upon the fluctuations of the commercial markets, particularly at the lower end of the collective protection.

The company is a segregated cell captive whose thirteen cells – one for each club in the Group – reinsures the Group's exposure to claims in the upper layer of the Pool (i.e. $20 million excess of $30 million) as well as the 25% vertical co-insurance which the Group retains on the first $500 million of its market reinsurance protection. Each cell reinsures its respective club for this purpose. Hydra is funded by way of common and preferred share capital, an agreed initial surplus to which contribution is made pro-rata by each club on the basis of own Net Weighted Tonnage Proportion (NWTP) calculated by reference to general excess of loss premium payment statistics.

SCHEMATIC OF INTERNATIONAL GROUP REINSURANCE COVER 2005/2006



* OIL POLLUTION LIMIT $1,000 MILLION

The governance of Hydra is vested in a Board comprising Directors representing each club cell. Investment strategy for funds held by each cell is determinable by its respective club, subject to over-arching investment rules agreed by the Board of Hydra. As to accounting, all clubs will be in a position to reflect their own net cell values in their own financial statements.

So far as the protection of the American Club's retained exposure for 2005 is concerned, the Club has been successful in buying-down cover to a $2 million excess point, notwithstanding the increase in the Pool threshold i.e. the indemnity available for each claim has increased from $3 million to $4 million for 2005. Other than this, the elements of the new cover are essentially the same as those which applied to the expiring reinsurance. Inevitably, however, in light of the increased exposure, the Club's absorption by way of annual aggregate deductible has increased somewhat – also in recognition of tonnage growth over the previous twelve months – while the minimum and deposit premium has also risen. Nevertheless, the adjustment rate per ton has risen only slightly.

At the left is a schematic of the Club's reinsurance arrangements through its participation in the International group scheme.

Supplementary Calls

Last year's Annual Report contained an explanation of the background to the unbudgeted calls for the 2000 through 2002 policy years. This background was also explained in detail to the Members in Circular No. 6/04 of June 18, 2004.

Since then the 2000 policy year has formally been closed, 2001was closed on March 31, 2005 and 2002 will be closed on September 30, 2005.

The 2003 and 2004 policy years are developing within acceptable limits at this point in time and no further calls in excess of current estimates are expected.

Finance and Investments

From an investment perspective, 2004 was a year of mixed results. Despite excellent corporate earnings in the United

States – maintained at an arguably unsustainable level of 20% during the year – the broad equity markets failed to generate traction in the first three quarters. However, the fourth quarter exhibited much better results, as investors enjoyed a robust year-end rally. All the major equity indices participated in this upward trend, which was prompted in substantial part by the decisive election result, relatively healthy employment data and a drop in oil prices.

In the fixed income markets, however, there was volatility during the final quarter of 2004, as business activity rebounded from the soft patch experienced over the summer months. The Federal Reserve continued – as it had promised – to raise the Fed funds rate at what it called "a measured pace". These increases entailed a significant narrowing in the interest rate differential between the two-year and the ten-year Treasury note in the fall of 2004 – from 156 to 114 basis points by October 1. This flattening of the yield-curve is expected to continue into 2005.

Overall the Club's portfolio returned 4.5% for 2004, with the equity portion up 9.75% and the bond sector returning 2.6%. As at year-end, approximately 74% of the Club's investments were held in cash and fixed instruments with the remaining 26% in equities. The Club maintains a comparatively conservative posture concerning the balance of its exposure as between equities and fixed income securities, the former not to exceed 30% of its total portfolio at any given time. This is a function both of the mandate its investment managers have received from the Club's Finance Committee and Board, and of the exigencies of the Club's regulation by the New York State Insurance Department.

As to the outlook for 2005, it is expected that corporate earnings in the United States will moderate to the 6% to 10% growth range during the year, while economic growth generally is expected to drop slightly from nearly 4% in 2004 to a still respectable 3 to 3.25% in 2005.

A figurehead is a carved image that decorates a ship's prow. Historical evidence of nautical figureheads exists from pre-Christian times. In the nineteenth century when shipbuilding flourished in Europe and America, the size and elaborateness of figureheads conveyed a sense of prosperity. Famous individuals, mythological characters, and patriotic themes were popular subjects. It is said that seamen believed the wooden eyes of the figurehead could come to life. If you carved one in the bow, one's ship would never sail blindly. The figurehead would always be on the lookout for danger.

Singly or together, a number of factors may contribute to the deceleration in corporate earnings. As mentioned above, the expected steady increase in interest rates foreshadowed by recent action by the Federal Reserve is likely to slow economic growth since both consumers and the corporate sector will be faced with higher borrowing costs. More importantly, perhaps, the economy will also begin to feel the combined ill effects of the federal budget and current account deficits.

Nonetheless, U.S. equity returns in 2005 are expected to be positive, albeit below the long-term historical average of 11%. Having said that, there are reasons to be cautious: the weak U.S. dollar may discourage foreign investors from further commitment to U.S. securities; the maturing of the U.S. earnings cycle and rising Fed funds rates militate against assigning higher valuations to U.S. stocks; raw material costs remain high for U.S. companies (due in part to the weak dollar); corporate America must contend with rising labor and finance costs; and, finally, many U.S.-based companies lack pricing power to pass on the higher costs of basic raw materials.

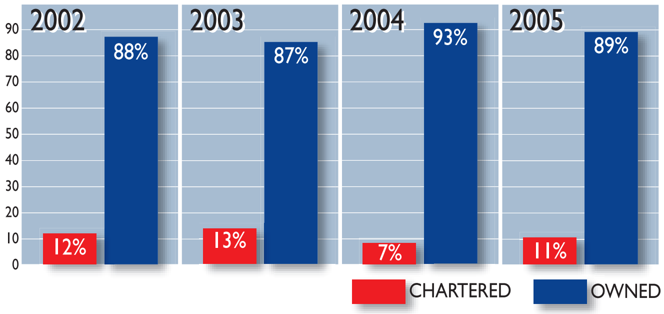
As a result, foreign stocks in aggregate may be more attractive in 2005 than their U.S. counterparts. Asian securities in particular may prove an attractive home for capital investment, while European equities offer attractive dividend yields, made more interesting in the longer term by continuing corporate restructuring across the Continental business environment, assuming that this is allowed to progress without political interference.

Claims

As mentioned in last year's Annual Report, the high point of 2004 was the release, at the end of April, of the "Karachi Eight" who had been held in Pakistan for nearly nine months following the casualty to their ship, the TASMAN SPIRIT, on her approach to unload at Karachi at the end of July, 2003.

While this was a source of great relief to the Club – and not least, of course, to the men themselves – it pointed up a growing trend, and one not restricted to the developing world, of official disregard for the human rights of seafarers. Sometimes such actions are motivated by corruption or greed, but sometimes they are driven by political opportunism. Whatever the circumstances, the human cost is intolerable by any standards of common decency.

SPLIT BETWEEN OWNED AND CHARTERED ENTRIES

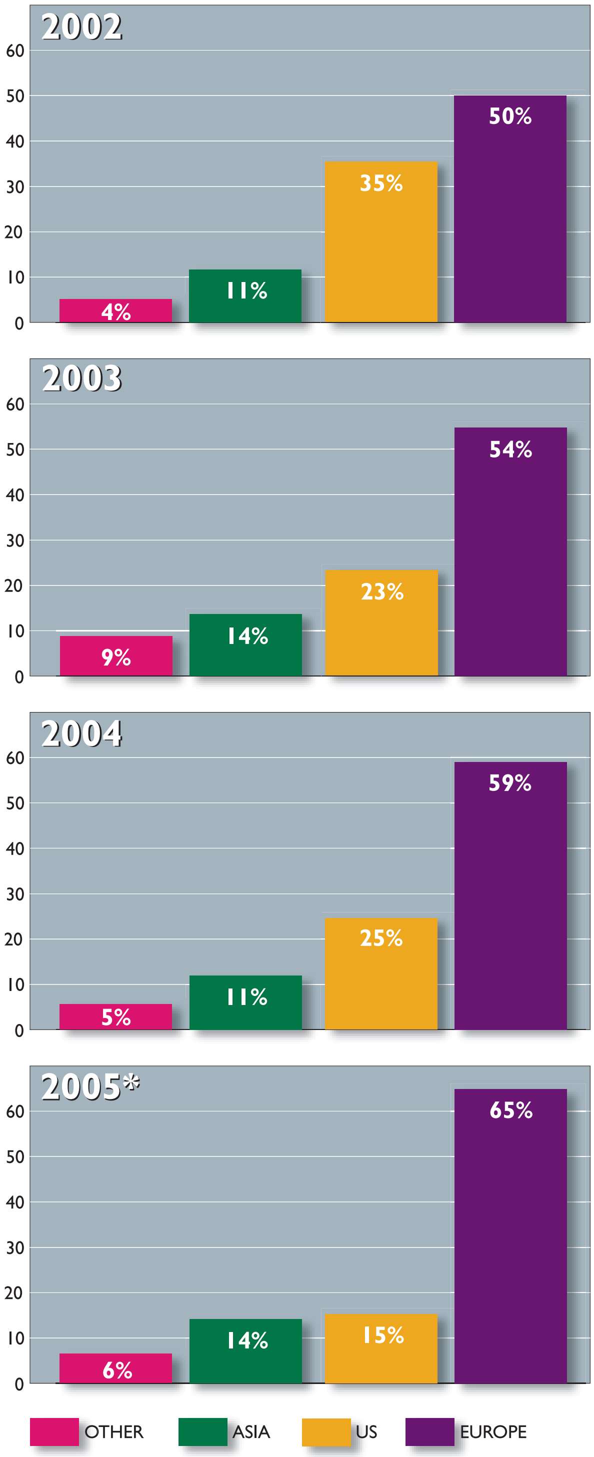


In the maritime world, perhaps the oldest rite of passage is the "crossing the line" ceremony. This Viking ritual, executed upon crossing the 30th parallel, was designed to test the endurance of the novices in the crew. In today's United States Navy, the initiation rite continues when "Shellbacks" become "Pollywogs" after crossing the Equator and paying tribute to King Neptune, the most senior Shellback. In Roman mythology, Neptune was the god of the sea. Based on the Greek god Poseidon, Neptune was inclined to provide support to sailors. However, his mood could darken in an instant; then, he would use his trident to stir the seas into terrible, ship-wrecking waters.

On a more routine level, claims development during 2004 broadly matched that of 2003 in terms of incidence, with cargo claims accounting for about 23% and 20% of each year's activity respectively. As to claims prevention, the Club maintains a policy of conducting pre-loading surveys, in particular for perennially problematic cargoes such as finished steel. The benefit of such surveys continues to be apparent in the avoidance – or mitigation – of claims on discharge.

Claims under the remaining heads of cover in the P and I catalog remained largely constant both in incidence and severity year-on-year, excluding of course the TASMAN SPIRIT. Activity under the Club's Class II cover – insurance for Freight, Demurrage and Defense risks – remained at a high level from year to year, accounting for, respectively, some 13% and 10% of all cases registered.

OWNED AND CHARTERED TONNAGE BY MANAGEMENT DOMICILE



** For the 2005 policy year, the convention of counting units of less than 1500gt at that figure by way of a minimum tonnage has been discontinued. This has the effect of markedly reducing the apparent proportion of the US entry in the Club in tonnage terms by comparison with earlier years where the convention applied, since most of the US-domiciled entry consists of tug and barge business.*

A significant difference, however, in relation to the development of cargo claims as between 2003 and 2004 was their relative severity. In 2003 the average cargo claim had a total incurred value of approximately $28,000 at the twelve month stage of development. In 2004, this figure had risen to $44,000. Increasing commodity prices are a likely cause of this inflationary effect, but at the same time it may be that the booming freight markets create circumstances where – at least in certain jurisdictions – the size of more speculative claims rises in proportion to the perceived wherewithal of the owners to pay them.

For 2005, a highlight on the claims servicing front is the opening of the Managers' subsidiary office in Greece. Shipowners Claims Bureau (Hellas) Inc. will be up and running in the Spring and, situated on Akti Miaouli in the heart of the bustling port of Piraeus, will provide a valuable resource for the Club's many Members in this important center of the world maritime industry.

Activity Within The International Group of P&I Clubs

Pollution issues headed the International Group's agenda during 2004.

The Panama Canal Authority (ACP) finalized its Shipboard Oil Pollution Emergency Plan (SOPEP) regulations which took effect on January 1, 2005 for vessels transiting the Panama Canal after accepting revisions proposed by the International Group and other industry bodies. They require vessels to submit an oil-spill response emergency plan to the ACP upon entering the Canal Zone, to empower an Authorized Person or local firm to provide oil-spill response services and to provide a guarantee as to any clean-up costs incurred. The ACP has agreed to accept Club Letters of Undertaking as guarantees, although the Group has maintained that Certificates of Entry and Blue Cards are sufficient.

A draft bill, devised by the Buzzards Bay Oil Spill Pollution Commission, was placed before the Massachusetts State legislature, requiring tanker owners to deposit a US$ 50 million bond before allowing their vessels to enter State waters. The Group was able to persuade the House to amend this provision in favour of a Certificate of Financial

Assurance (CFA), guaranteeing oil pollution cover of up to US$1 billion. The bill was signed into law in August 2004.

In Argentina, new pollution regulations were enacted, requiring shipowners to have oil spill response plans, contracts with Oil Spill Response Organisations (OSROs) and with Qualified Individuals (QIs). These exceeded the requirements of the Civil Liability Convention 1992 (CLC 92), to which Argentina is a signatory. The Group has continued to lobby local authorities to provide OSRO services and for local agents to be appointed QIs, rather than have the law changed.

In Italy, it became a requirement from February, 2005 for Italian-flagged tanker owners to submit Blue Cards to the maritime authority, ISVAP, signifying compliance with CLC 92. This imposed bureaucratic procedure exceeded the requirements of the Convention. The Group issued special water-marked Blue Cards for the purpose.

Throughout 2004, the International Group was engaged in drafting its Small Tanker Oil Pollution Indemnification Agreement (STOPIA)–a proposal aimed at pre-empting the revision of the compensation levels available under the CLC/IOPC Fund 1992 Conventions, which had been signaled by certain EU States. In return for the oil companies providing a third tier of compensation under the Supplementary Fund Protocol, STOPIA increases the amount of compensation payable by the owners of smaller tankers (those less than 29,548 GT) from SDR 4.5 million to SDR 20 million. The final version of the Agreement was submitted to the IOPC Fund in March 2005. The subject remains closely debated as between shipowner and cargo interests.

The campaign to revise the legislative framework for oil pollution compensation was also linked to the issue of sub-standard shipping. The Group has resisted the principle that P&I clubs should be held responsible for policing the world fleet. However, it recognizes that it has an important part to play, by sharing information on ship condition surveys, for example, and by implementing more rigorous procedures for assessing the standard of ships acceptable to clubs.

Sailors kept cats on board ships to bring them luck. Regarded as witches in disguise, cats could predict—and, more significantly, create—stormy weather. Consider this Scottish legend: A Spanish king wishes to avenge the murder of his daughter by a witch. He launches a war vessel, igniting the fury of all the witches of Scotland. The witches take the shape of cats and gather together on the Spaniard's ship, determined to sink it. The captain, however, knows magic and counteracts their spells. Then, the queen of the witches appears on top of the mast in the form of a gigantic black cat, howling dire incantations. The vessel sinks instantly into the frigid depths.

Legislation requiring P&I insurers of Russian-flagged vessels to be licensed by the Russian Federation caused difficulties during the year for several reasons. A possible solution was found in a proposal to allow Ingosstrakh, the leading Russian insurer, to be elevated to the status of joint member on Certificates of Entry. This 'grandfathering' arrangement would enable Ingosstrakh to reinsure Russian owners through Group clubs. Meanwhile, as the result of lobbying by the Russian Shipowners Union, the Russian government indicated that it might be willing to allow Group clubs an exemption.

The legal status of all International Group P&I clubs maintaining representative offices in London came under the regulatory spotlight, when the UK Financial Services Authority implemented the EU's Insurance Mediation Directive which took effect on January 15, 2005. The regulations established new – and rigorous – standards for the conduct of insurance business by intermediaries in the UK. Club Managers have been brought within the ambit of the new regime, compliance with which has had implications for the manner in which business is conducted in the UK on behalf of foreign principals. Companion regulations also have an effect on the levels of capitalization required of Clubs domiciled in the EU by reference to Individual Capital Assessments (ICAs), the calculation of which is not dissimilar to that used by US regulators in applying their own tests for local insurers.

In October 2004, the China P&I Club filed a formal application to join the International Group. A Group Sub-Committee was appointed to ascertain the China P&I Club's ability to satisfy all the conditions of membership.

Certain issues were raised for which clarification was sought and, as at the time of writing, the Sub-Committee's consideration of the subject continues.

Safety and Loss Prevention

The Club's commitment to safety and loss prevention gained momentum during 2004. It focused primarily on expanding the efficiency on the Club's surveying capabilities, broadening the range of its publications, widening the scope of its training programs and introducing Pre-Employment Medical Examination (PEME) initiatives in the Ukraine and the Philippines.

On the surveying front, 2004 saw a significant increase in the number of entry surveys performed for vessels being newly insured by the Club. During the year, some 250 vessels of ten years of age or more were inspected by comparison with 165 which underwent survey over the previous twelve month period.

The Club also continued to expand its outreach to Members through the publication of loss prevention materials both online and in hard copy. Further editions of Currents – the Club's in-house newsletter – were published, as were reports of the proceedings of the International Maritime Organization (IMO)'s Marine Safety Committee and Marine Environmental Protection Committee. In addition, the Club started to provide loss prevention-related publications in a humorous and user-friendly format. The first, Preventing Fatigue, was well received both by Members and by the maritime community in general. Further initiatives are underway including a poster series aimed at preventing trips and falls on board ship.

2004 also saw the Club increase its activity in regard to training and seminars. A variety of subjects were embraced, including maritime security and the increasingly problematic issue of oily-water separators. Most importantly, perhaps, was the Club's introduction of a course providing training on maritime pilotage for deck officers which it began in December 2004. The first seminar took place in cooperation with the Odessa National Maritime Academy in the Ukraine. It is intended that a similar program will begin in the Philippines during the summer of 2005.

Another ground-breaking initiative was the commencement, in March 2004, of the Club's Pre-Employment Medical Examination (PEME) program in the Ukraine which was shortly followed thereafter by a similar scheme in the Philippines. Conservative estimates suggest that, so far, the exercise has led to the prevention of illness-related claims in respect of Ukrainian seafarers comfortably in excess of $1 million by value. Similar results have also been seen at the first anniversary of the Club's program in the Philippines.

A Look Back and A Look Ahead

It is now ten years since the American Club commenced its Vision 2000 strategy aimed at growth and diversification toward the new millennium and beyond.

Over that decade, the Club has undergone unprecedented change. It would be idle to pretend that the implementation of this change has been easy, or that bringing the Club forward to its current position in the market has not entailed difficulty from time to time. Nevertheless, if there is one underlying truth which has guided this initiative since it began ten years ago, it is the recognition that nothing which is worth having is likely to be had without hard work and commitment and the occasional rough patch along the way.

In this, the success of the American Club in pursuing its aims is as much a testament to the support of its Members and its Board – particularly through challenging times – as it is to anything else. This speaks volumes for the very best of the mutual principle which has enabled the Club to move forward with steadfastness and resolve.

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

With this in mind, and looking ahead to a further decade of success, the American Club recommits itself to providing the most accessible, effective and transparent elements of service to its Members. It will remain unrelenting in the application of its resources to the achievement of impeccable results under examination as to any component of P and I performance.

The Managers join the Directors in thanking all of those who have helped the Club in progressing its aims over the past twelve months – as always, and most importantly of course, the Members themselves. They look forward with their customary enthusiasm to the future, and the continuing development of the American Club's position at the forefront of the P & I world.

2004 FINANCIAL REPORT

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People always have been interested in the weather, particularly sailors whose livelihood depended on it. Before meteorological equipment, people used observations from life, such as animal behavior and wind change, as a guide. Patterns were discussed with others. Adages like the one below developed and endured, quite simply, because they have proved to be true.

When the wind is blowing in the North
No fisherman should set forth,
When the wind is blowing in the East,
'Tis not fit for man nor beast
When the wind is blowing in the South
It brings the food over the fish's mouth,
When the wind is blowing in the West,
That is when the fishing's best!

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of American Steamship Owners Mutual Protection and Indemnity Association (the "Association") as of December 31, 2004 and 2003, and the related statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 2, 2005

Member of
Deloitte Touche Tohmatsu

2004 BALANCE SHEETS

IN THOUSANDS	NOTE	DECEMBER 31, 2004	2003
Assets:			
Investments	3	**$ 129,768**	$ 77,417
Cash and cash equivalents		**10,992**	11,425
Members' balances receivable		**50,967**	30,365
Unbilled assessments	6	—	24,644
Reinsurance recoverable	5	**27,060**	23,304
Other	4	**5,815**	5,879
Total Assets		**224,602**	173,034
Liabilities and Members' Equity			
Liabilities:			
Unpaid losses and allocated loss adjustment expenses	5	**$ 143,369**	$ 97,262
Unreported losses	5	**16,500**	18,300
Unearned premiums		**18,194**	13,012
Reinsurance payable		**11,169**	7,607
Other	4	**406**	4,904
Total Liabilities		**189,638**	141,085
Commitments and Contingencies	8		
Members' Equity:			
Retained earnings		**30,212**	29,560
Accumulated other comprehensive income		**4,752**	2,389
Total Members' Equity	10, 12	**34,964**	31,949
Total Liabilities and Members' Equity		**$ 224,602**	$ 173,034

See notes to financial statements

2004 STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

IN THOUSANDS	NOTE	DECEMBER 31, 2004	2003
Income:			
Net premiums and assessments earned	6	**$ 119,092**	$ 101,530
Net investment income		**2,353**	1,476
Realized investment gain		**196**	1,549
Total Income		**121,641**	104,555
Expenses:			
Losses and loss adjustment expenses incurred	5	**87,999**	74,072
Other operating expenses	7	**32,857**	20,705
Total Expenses		**120,856**	94,777
Income Before Income Taxes		**785**	9,778
Provision for income taxes		**(133)**	(15)
Net Income		**652**	9,763
Other Comprehensive Income, Net of Tax:			
Unrealized gains on investments		**2,363**	1,879
Other comprehensive income		**2,363**	1,879
Comprehensive Income		**$ 3,015**	$ 11,642

See notes to financial statements

2004 STATEMENTS OF CHANGES IN MEMBERS' EQUITY

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2003		**$ 19,797**	**$ 510**	**$ 20,307**
Net income		**9,763**		**9,763**
Unrealized investment gains		**—**	**1,879**	**1,879**
Balance, December 31, 2003	9	**29,560**	**2,389**	**31,949**
Net income		**652**		**652**
Unrealized investment gains		**—**	**2,363**	**2,363**
Balance, December 31, 2004	10, 12	**$ 30,212**	**$ 4,752**	**$ 34,964**

2004 STATEMENTS OF CASH FLOW

IN THOUSANDS	DECEMBER 31, 2004	2003
Cash Flows from Operating Activities:		
Premiums and assessments collected, net	**$ 129,215**	$ 81,231
Loss and loss adjustment expenses paid, net	**(56,413)**	(48,032)
Underwriting and other expenses paid	**(22,510)**	(12,924)
Interest received, net of expenses	**2,161**	1,565
Income taxes paid	**(69)**	(8)
Other, net	**1,974**	(946)
.		
Net cash provided by operating activities	**54,358**	20,886
Cash Flows from Investing Activities:		
Proceeds from sales/maturities of investments	**74,624**	57,634
Payments for purchases of investments	**(129,280)**	(72,285)
Payments for purchases of computer equipment	**(135)**	(2,130)
Net cash used in investment activities	**(54,791)**	(16,781)
Net Change in Cash and Cash Equivalents	**(433)**	4,105
Cash and Cash Equivalents, Beginning of Year	**11,425**	7,320
Cash and Cash Equivalents, End of Year	**$ 10,992**	$ 11,425

See notes to financial statements

2004 NOTES TO FINANCIAL STATEMENTS

1 Organization

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

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

2 Summary of Accounting Policies

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

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

A review of investments is performed as of each balance sheet date with respect to investments where the market value is below cost. If, in management's judgement, the decline in value is other-than-temporary, the cost of the investment is written down to fair value with a corresponding charge to earnings.

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

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

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

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

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

Premiums and Revenue Recognition - The statements of operations include those premiums which have been billed in the current year, together with estimates of unbilled assessments, representing an estimate of those assessments expected to be billed during the following calendar year.

Income Taxes - The Association is exempt from income taxes except for Federal and New York State taxes on taxable interest and dividends received. Deferred income tax relating to accrued taxable interest and dividends is recorded.

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

Reclassifications - Certain items in the 2003 financial statements have been reclassified to conform with the 2004 presentation.

3 Investments

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

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2004:				
US Treasury and obligations of other US government corporations and agencies	$ 307	$ —	$ 10	$ 297
Short term investments	11,665	11	—	11,676
Obligations of states and political subdivisions	81,280	1,048	243	82,085
Common stocks	31,764	4,626	680	35,710
Total	$ 125,016	$ 5,685	$ 933	$ 129,768

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2003:				
US Treasury and obligations of other US government corporations and agencies	$ 310	$ 1	$ —	$ 311
Short term investments	5,340	1	1	5,340
Obligations of states and political subdivisions	48,296	1,159	33	49,422
Common stocks	21,082	1,704	442	22,344
Total	$ 75,028	$ 2,865	$ 476	$ 77,417

All of the Association's fixed maturities with unrealized losses at December 31, 2004 have been in an unrealized position for less than twelve months.

The fair value and amortized cost of available-for-sale debt securities at December 31, 2004 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	$ 1,940	$ 1,937
Due after one year through five years	18,991	19,111
Due after five years through ten years	39,726	40,236
Due after ten years	20,930	21,098
Total bonds and notes	$ 81,587	$ 82,382

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

	2004	2003
Proceeds from sales of investments	$ 74,659	$ 58,200
Gross realized gains	1,280	3,182
Gross realized losses	1,084	1,633

There were no realized losses recorded in 2004 or 2003 that were a result of an investment being other-than-temporarily impaired.

At December 31, 2004 and 2003, United States Government Treasury notes in the amount of $300 and $310 par value, respectively, were deposited with regulatory authorities as required by law.

4 Other Assets and Other Liabilities

	2004	2003
Other Assets		
Computer equipment and software – net of accumulated depreciation of $1,456 and $1,351, respectively	$ 2,419	$ 3,005
Receivable for securities sold – including related party receivable of $402 and $548, respectively	498	609
Accrued interest receivable	1,232	522
Income tax recoverable	23	85
Prepaid reinsurance premiums	1,163	1,267
Management fee receivable	449	263
Other assets	31	128
	$ 5,815	$ 5,879
Other Liabilities		
Accrued expenses	301	598
Deferred income tax	8	—
Liability for securities purchased	97	4,306
	$ 406	$ 4,904

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:

	2004	2003
Gross balance at January 1	$ 115,562	$ 82,441
Less reinsurance recoverables	16,711	14,131
Net balance at January 1	98,851	68,310
Incurred related to:		
Current year	67,850	52,695
Prior years	20,149	21,377
Total net incurred	87,999	74,072
Paid related to:		
Current year	4,767	9,522
Prior years	45,227	34,009
Total net paid	49,994	43,531
Net balance at December 31	136,856	98,851
Plus reinsurance recoverables	23,013	16,711
Gross balance at December 31	$ 159,869	$ 115,562

In 2004, loss emergence for prior years increased by $20.1 million. The increase reflects unfavorable emergence of $19.1 million for the 2003 policy year, $8.6 million of which was expected development through the policy year end date of February 20, 2004, and unfavorable emergence of $1.0 million for policy years prior to 2003.

Current year net losses incurred reflects continued growth in tonnage at February 20, 2004 and losses on increased non-American business, with their apparent greater frequency and lesser severity. Net claims paid increased by $6.5 million, and loss reserves increased by $44.3 million reflecting growth in tonnage on risk.

In 2003, loss emergence for prior years increased by $21.4 million. The increase reflects unfavorable emergence of $17.0 million for the 2002 policy year, $5.5 million of which is expected development through the policy year end date of February 20, 2003, and unfavorable emergence of $4.4 million for policy years prior to 2002.

	2004	2003
Reinsurance recoverable on unpaid losses	$ 23,013	$ 16,711
Reinsurance recoverable on paid losses	4,047	6,593
Total reinsurance recoverable	$ 27,060	$ 23,304

6 Premiums and Assessments

	2004	2003
Premiums written and billed assessments	$ 166,221	$ 94,843
Increase in unbilled assesments	(24,644)	24,644
Return premiums	(1,975)	(528)
Reinsurance premiums ceded	(15,223)	(12,810)
Net premiums and assessments written	124,379	106,149
Increase in unearned premiums	(5,287)	(4,619)
Net premiums and assessments earned	$ 119,092	$ 101,530

There are no billed assessments at December 31, 2004 for the 2004 policy year, and there are no unbilled assessments at December 31, 2004. During the current year assessments were levied and billed as follows: $6.4 million for the 2000 policy year levied June 30, 2004 collectible in one installment August 31, 2004; $7.8 million for the 2001 policy year levied September 30, 2004 collectible in one installment January 31, 2005; $9.6 million for the 2002 policy year levied September 30, 2004 collectible in one installment September 30, 2005. Billed assessments of $12.8 million at December 31, 2003 for the 2003 policy year were collectible in one installment due May 20, 2004. There were net unbilled assessments of $24.8 million at December 31, 2003. Additional assessable amounts will be billed as, and if, management deems appropriate.

7 Other Operating Expenses

	2004	2003
Management fee	$ 7,942	$ 4,284
Bad debts	1,213	1,729
Brokerage	16,309	9,236
Other	7,393	5,456
Total operating expenses	$ 32,857	$ 20,705

8 Commitments and Contingencies

Letters of Credit – At December 31, 2004, the Association had outstanding letters of credit for $30.1 million, $3.4 million of which is a designated reserve that is required by the International Group Pooling Agreement.

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

Asbestos-Related Claims	**2004**	2003
Aggregate gross losses paid to date at December 31	$ 5,830	$ 5,800
Loss reserves - reported	319	519
Loss reserves - unreported	—	2,500

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 against all former members in the insurance years before February 20, 1989 seeking to terminate its discretionary practice of paying unreported, unreserved or under-reserved occupational disease claims belatedly asserted as arising in the long closed years before February 20, 1989.

The Association is vigorously defending its positions and is confident that it will succeed.

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.

In March 2004, suit was commenced against the Association by a former agent in Greece seeking allegedly unpaid commissions. The Association responded by filing a motion to stay litigation in New York pending arbitration in London pursuant to an agreement between the parties. The Association expects a favorable judgment in this matter.

9 Related Party Transactions

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

Also on December 31, 2001, the Association subsequently sold its interest in SCB to Eagle Ocean Management, LLC ("EOM"), a related party to SCB. No gain or loss was recorded as a result of these transactions. The Association maintains a promissory note receivable from EOM totaling $401,873 as of December 31, 2004 in satisfaction of the sale price. The final installment is due October, 2007.

10 Statutory Filings

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

The principal differences affecting the Association are described below:

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

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

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

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

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

	2004	2003
Statutory surplus, as reported	$ 37,716	$ 11,264
Future assessments receivable up to difference between ultimate and present values of losses	(12,297)	(12,116)
Unbilled assessments, net	—	24,644
Nonadmitted assets	9,634	6,077
Carrying value of applications software and consultants' fees	2,315	2,900
Reserve for reinsurance	2,136	2,186
Allowance for doubtful accounts	(5,346)	(4,133)
Unrealized gain on available-for-sale securities	806	1,127
Members' equity on the basis of Generally Accepted Accounting Principles	$ 34,964	$ 31,949

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

11 Cash Flow Statements

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

	2004	2003
Net income	$ 652	$ 9,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond premium	620	281
Gain on long term securities sold or redeemed	(196)	(1,549)
Depreciation	721	326
	1,145	(942)
Change in:		
Members' balances receivable, net	(20,602)	757
Unbilled assessments, net	24,644	(24,644)
Reinsurance recoverable	(3,756)	(5,060)
Other assets	(487)	2,699
Liabilities for unpaid and unreported losses and loss adjustment expenses	44,307	33,121
Unearned premiums	5,182	4,306
Reinsurance payable	3,562	616
Other liabilities	(289)	270
	52,561	12,065
Net cash used for operating activities	$ 54,358	$ 20,886

12 Open and Closed Years and Contingency Fund

The Association maintains separate accounting for each policy year, which runs from February 20 through February 20, and keeps policy years open until the Board of Directors resolve to close the year. Years are closed after the ultimate liabilities for that year are known with a high degree of probability. The 2000/01 policy year was closed March 31, 2004 without further calls.

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

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

Development of Open Policy Years at December 31, 2004

	2001-02	2002-3	2003-04	2004-05
Income:				
Calls and premiums	$ 27,354	$ 37,556	$ 72,748	$105,148
Supplementary calls debited	16,413	27,749	13,600	260
Provision for estimated future calls	—	—	—	—
Investment income	2,190	1,516	1,052	725
Total income	45,957	66,821	87,400	106,133
Expenses:				
Net paid losses	25,542	32,818	33,374	4,648
Net pending losses	8,644	18,964	37,701	55,583
Undiscounted IBNR	100	100	500	7,500
Reinsurance premiums	7,155	11,040	13,899	10,692
Other operating expenses	7,848	8,804	9,759	13,698
Total expenses	49,289	71,726	95,233	92,121
Retained earnings	(3,332)	(4,905)	(7,833)	14,012
Contingency fund transfers	3,791	4,374	1,091	
Unrealized investment gain	—	—	—	—
Members' equity: open years	$ 459	$ (531)	$ (6,742)	$ 14,012

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

2001/02	$ 2,810
2002/03	$ 3,990
2003/04	$ 6,228
2004/05	$10,488

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

(c) For the 2004/05 policy year, calls and premiums are stated on an earned basis to December 31, 2004. Expenses are stated on an accrued basis for the same period.

Development of Closed Policy Years and Contingency Fund

	2004	2003
Closed years' balance, January 1	$ —	$ —
Total income earned	128	1,530
Net paid losses	3,670	6,308
Net pending losses	(3,185)	(4,267)
Unreported losses (IBNR)	(500)	—
Reinsurance premiums	(387)	251
Other operating expenses	1,648	422
Total expenses incurred	1,246	2,714
Unrealized investment gains	2,363	1,879
Transfer from closed policy year 2000/01	(1,766)	—
Transfer from closed policy year 1999/00	—	(4,495)
Net change	(521)	(3,800)
Transfer from contingency fund	521	3,800
Closed years' balance, December 31	$ —	$ —

Contingency fund balance, January 1	$ 37,543	$ 41,343
Transfer to policy year 2001/02	(3,791)	—
Transfer to policy year 2002/03	(4,374)	—
Transfer to policy year 2003/04	(1,091)	—
Transfer to closed policy years	(521)	(3,800)
Contingency fund balance, December 31	**27,766**	**37,543**
Open policy years' equity		
2000/01	—	(967)
2001/02	459	(1,560)
2002/03	(531)	(4,083)
2003/04	(6,742)	1,016
2004/05	14,012	—
Total Members' equity	**$ 34,964**	**$ 31,949**

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

13 Leases

Lessee Leasing Arrangements

On January 1, 2002, the Association assumed the noncancelable operating lease for its occupied offices that is due to expire August 1, 2010. Rental expense for 2004 was approximately $360,000. Future minimum rental payments are as follows:

Year	Amount
2005	375,458
2006	396,825
2007	396,825
2008	396,825
2009	396,825
Thereafter	231,481
Total	$2,194,239

14 Average Expense Ratio

In accordance with Schedule 3 of the International Group Agreement 1999, the Association is required to disclose its Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment income, averaged over the five years ended December 31, 2004.

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

For the five years ended December 31, 2004 the ratio of 12.2% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 11.1% recorded for the five years ended December 31, 2003, an increase of 1.1%, due principally to brokerage expense on increased premiums written and billed of $166.2 million for the year ended December 31, 2004, compared to $94.8 million for the year ended December 31, 2003.

UNAUDITED SUPPLEMENTAL SCHEDULE

2004 STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME BY CLASS

	P&I		FD&D	
	DECEMBER 31		DECEMBER 31	
IN THOUSANDS	**2004**	**2003**	**2004**	**2003**
Income:				
Net premiums and assessments earned	**$ 114,219**	$ 97,949	**$ 4,873**	$ 3,581
Net investment income	**2,257**	1,424	**96**	52
Realized investment gain	**188**	1,494	**8**	55
Total Income	**116,664**	100,867	**4,977**	3,688
Expenses:				
Losses and loss adjustment expenses incurred	**84,534**	71,634	**3,465**	2,438
Other operating expenses	**31,513**	19,975	**1,344**	730
Total Expenses	**116,047**	91,609	**4,809**	3,168
Income Before Income Taxes	**617**	9,258	**168**	520
Provision for income taxes	**(128)**	(14)	**(5)**	(1)
Net Income	**489**	9,244	**163**	519
Other Comprehensive Income, Net of Tax:				
Unrealized gains on investments	**2,266**	1,813	**97**	66
Other comprehensive income	**2,266**	1,813	**97**	66
Comprehensive Income	**$ 2,755**	$ 11,057	**$ 260**	$ 585

BOARD OF DIRECTORS (as of May 1, 2005)

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

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

VASSILIOS BACOLITSAS *(Sea Pioneer Shipping Corp.)*

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STEVEN T. SCALZO *(Foss Maritime Company)*

JONATHAN C. WALES *(Reinauer Transportation Companies)*

SERVET YARDIMCI *(Yardimci Group)*

Secretary

JOSEPH E. M. HUGHES

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