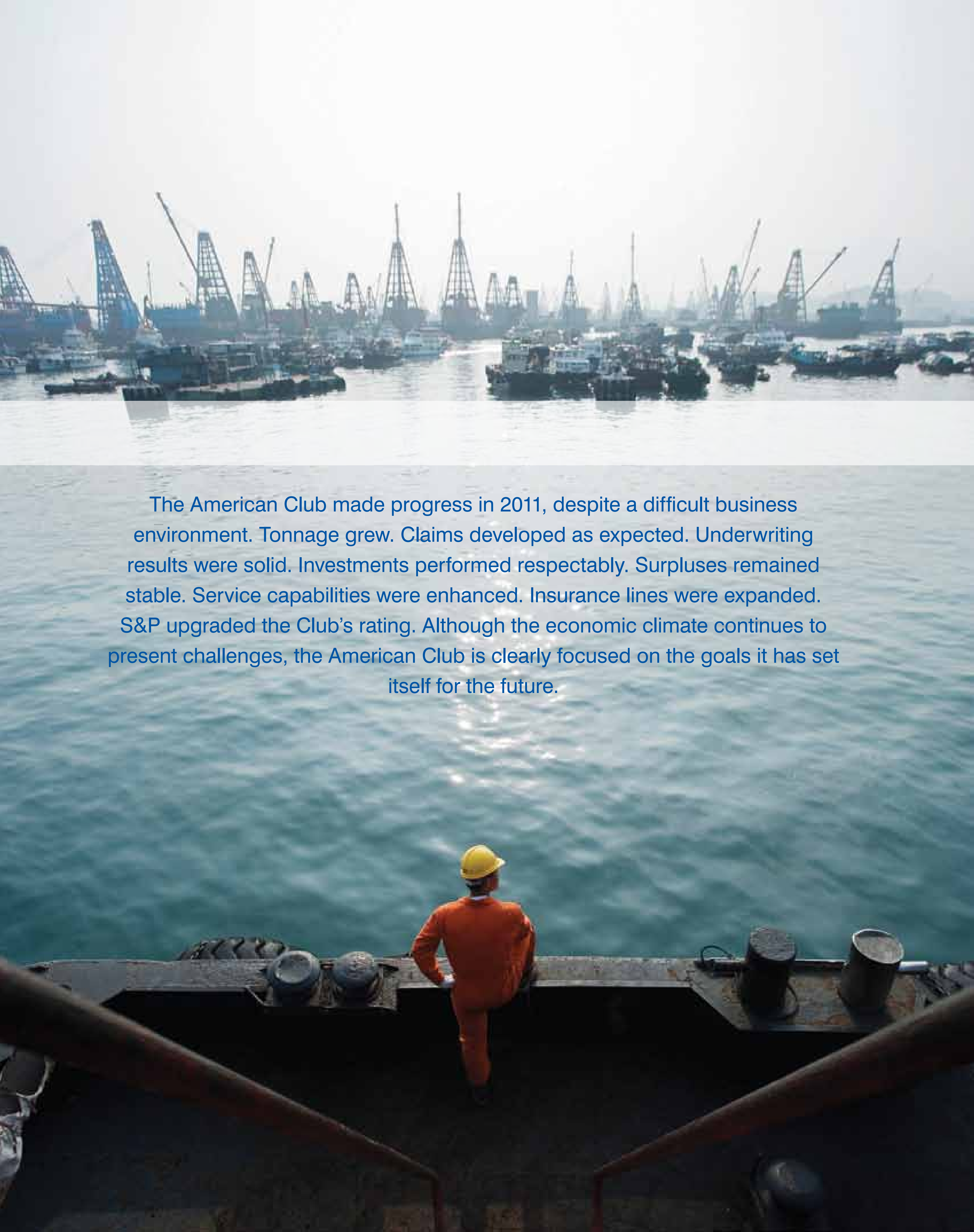
THE AMERICAN CLUB 1917

# 2011 Annual Report

THE AMERICAN CLUB



The American Club made progress in 2011, despite a difficult business environment. Tonnage grew. Claims developed as expected. Underwriting results were solid. Investments performed respectably. Surpluses remained stable. Service capabilities were enhanced. Insurance lines were expanded. S&P upgraded the Club's rating. Although the economic climate continues to present challenges, the American Club is clearly focused on the goals it has set itself for the future.

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### HIGHLIGHTS

*The American Club made progress in 2011, despite a difficult business environment.*

## 2011 Highlights

- 2011 renewal sees modest premium increase following benign claims development in prior year.
- Tonnage continues to grow during 2011 as newer vessels replace older ships.
- Premium pricing influenced by competitive climate for newbuildings, but underwriting results remain solid.
- Claims emergence remains subdued in first half, trends upward later in year, but continues within budget.
- 2008 policy year closed without further call.
- Funds under investment generate a 3.5% return amid volatile capital markets.
- Standard & Poor's upgrades Club's counterparty rating.
- Eagle Ocean Marine fixed premium facility, backed by strong co-venturing reinsurers, gains traction.
- 5% increase in premium levels across all classes ordered for 2012: premium structure modified: reinsurance costs match expectations.
- Free reserves moderate slightly by year-end: first quarter shows significant improvement as investment markets rise.

# 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, 2011.

# The Year in Review

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

The Annual Meeting of Club Members took place in New York City on June 23, 2011. At that meeting, all the Directors who had presented themselves for re-election were duly re-elected to serve for a further twelve months.

At the Annual Meeting of the Directors, which took place immediately after that of the Members, Mr. J. Arnold Witte of Donjon Marine Co., Inc. and Mr. Markos K. Marinakis of Marinakis Chartering Inc. were re-elected, respectively, as Chairman and Deputy Chairman of the Board. Mr. Lawrence J. Bowles was re-appointed as General Counsel to the Club and Mr. Joseph E. M. Hughes, Chairman and CEO of the Managers, was re-appointed as Secretary.

At the regular Board meeting, which took place in Beijing on September 22, 2011, Mr. John E. Couloucoundis of Delta Navigation Corporation, was co-opted to membership of the Board in accordance with the provisions of Article II, Section 2 of the By-Laws. Mr. Couloucoundis was welcomed to the Board in the expectation of his making a significant contribution to the Club's business over the years ahead. A full list of the current Directors – and the Secretary – is set out on the inside back cover.

Other than in Beijing in September, all other meetings of the Board in 2011 took place in New York. In the course of these meetings, a wide range of matters was considered. They included policy year accounts, and the closing of relevant years, the settlement of claims of the Club's Members, including omnibus clause references, matters relevant to the Club's membership of the International Group of P&I Clubs, including the development of Pool claims, reinsurance, investment policy, the outcome of renewal negotiations, developments in global regulations in regard to shipping policy, and the enforcement of other political initiatives, as well as many other subjects pertaining to the Club's affairs.

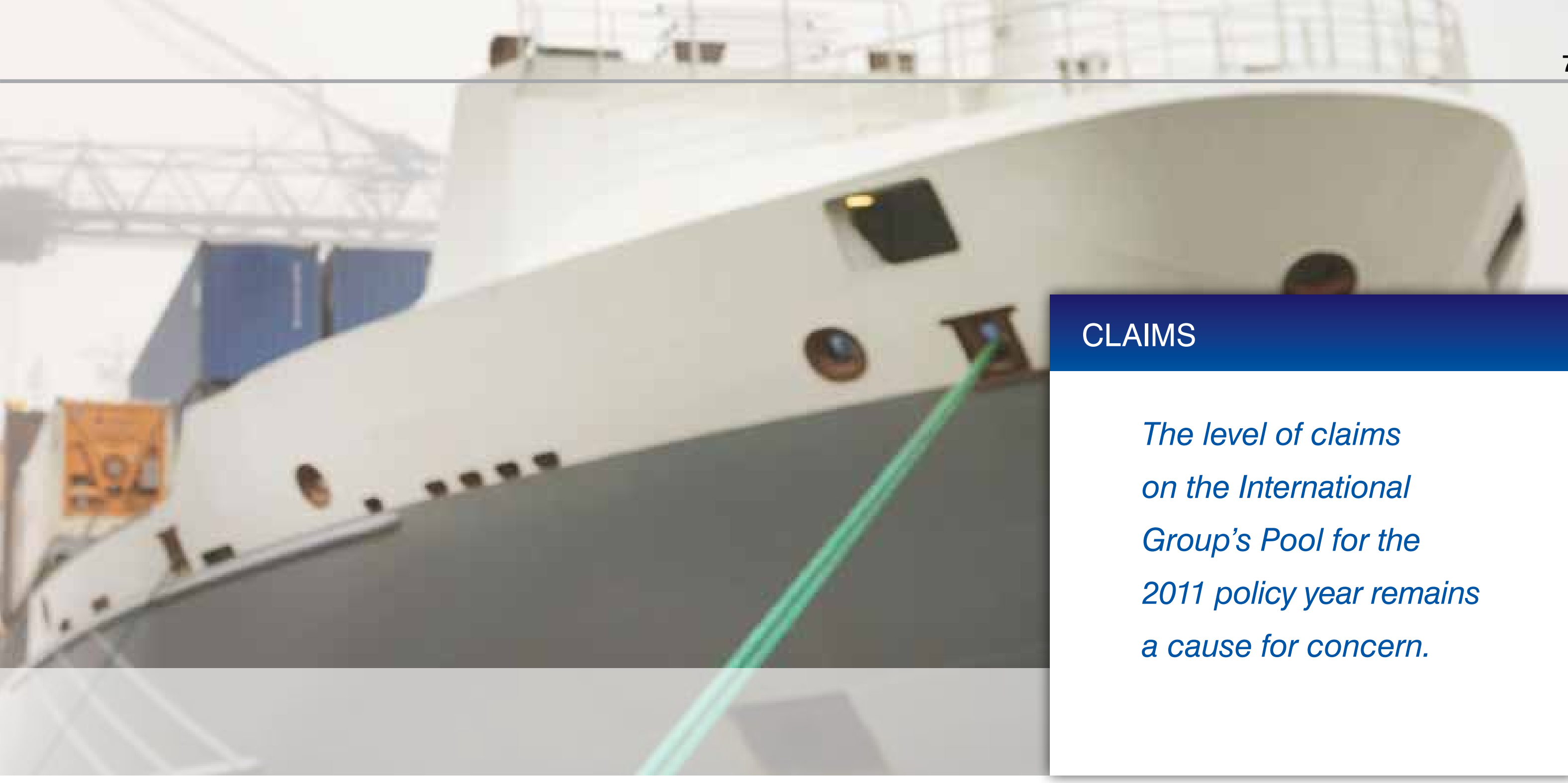
The period under review saw the formal closing of the 2008 policy year, without further call, as of March 31, 2011. The surplus attributable to the year was transferred to the Club's contingency fund in order, inter alia, further to support the Club's surplus requirements.

In Club Circular No. 33/11 of November 18, 2011, Members were informed that the forecast call of 25% for the 2011 policy year would be debited as of year-end and made payable in two equal installments on July 20 and October 20, 2012.

The release call margin for the 2009 policy year was reduced to 10%. Those for the 2010 and 2011 policy years were maintained at 25% of relevant advance calls over and above the then currently estimated total premium for the years in question.

It is encouraging to note that no unforecast additional calls were levied for any year during 2011.

For 2012, a general increase of 5% was ordered across all classes of the Club's business. Mutual premium was redefined as estimated total premium for the year, subject to a zero supplementary call forecast. For P&I entries, all estimated total premium was ordered to be debited in five equal installments during the 2012 calendar year, with the fifth installment deferred for payment in May, 2013. FD&D premium was to be debited in two equal installments during the



## CLAIMS

*The level of claims on the International Group's Pool for the 2011 policy year remains a cause for concern.*

calendar year. The release call for both classes was set at a margin of 20% of estimated total premium.

The Club's funds under investment – and concomitant returns – remained broadly stable during the year. While exceptional volatility characterized the equity markets in 2011, the Club realized a 3.5% return on its portfolio overall, the fixed income sector providing the most stable returns over the period.

Toward the end of the year, it was decided to move a larger part of the Club's portfolio into fixed income investments. A revised set of investment guidelines was approved as of November, 2011 in reflection of this policy.

November also brought a Standard and Poor's upgrade for the Club. The agency raised its counterparty credit and financial strength ratings one full notch to BB+, with a stable outlook, from BB.

The Club's year-end GAAP surplus is, at approximately $60 million, slightly lower than that recorded at the end of 2010. This was for the most part due to some deterioration of claims in earlier years, as well as the subdued performance of the investment markets over the period, particularly in the equities sector.

The Club continued to benefit from meetings of the Finance and Audit, Claims and Risk Management, and Safety and Environmental Protection Committees during the year. Under the guidance of the latter, further editions of ***Currents*** – the Club's in-house newsletter – were published, and other important initiatives undertaken.

The Club's tonnage grew steadily during the course of 2011 as older, smaller vessels were replaced by newer, larger units. However, this trend – widely referred to as "the churn" – had an attenuating effect upon premium volumes, since larger, newer tonnage almost invariably attracts lower premium per ton than the tonnage it replaces, to say nothing of the keen competition existing within the market for newly constructed ships.

However, the upside has been a reduction in claims costs per ton in recent years. Both 2009 and 2010 saw positive variances on actual claims development by comparison with originally budgeted figures. 2011 was no different in this respect. Although actual as compared to budgeted premium for the year is somewhat lower, the same is true of the expected ultimate claims outturn, including IBNR, for the Club's own account. However, the level of claims on the International Group's Pool for the 2011 policy year remains a cause for concern. This is the subject of further comment in the Managers' report.

At the end of 2010, the Club adopted a new strategy. Entitled ***Partners in Progress***, this reaffirmed the Club's vision and mission for the future, particularly in light of the excellent progress it had made in recent years. It was informed by careful analysis of the future shape of both the insurance and shipping industries. It contained carefully-defined goals and an action plan to achieve them.

Part of the action plan entailed the greater diversification of the Club's activity. A step in this direction was taken in the middle of 2011 through the participation of the American Club in the Eagle Ocean Marine facility – a fixed premium product for the insurance of P&I and FD&D risks for the operators of smaller ships in local and regional trade outside the United States.

Managed by Eagle Ocean Agencies, Inc., a sister company of Shipowners Claims Bureau, Inc. – the Club's management company – the facility has started well. The Club's participation, supported by a quota-share reinsurance program at Lloyd's and elsewhere, is expected to inure significantly to the benefit of its membership over the years ahead.

While challenging – not least for shipowners themselves – 2011 was a further period of achievement for the Club. Your Directors remain optimistic as to the future. The Club sees many exciting prospects as it continues to build a position at the forefront of the P&I industry.

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

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

# REPORT OF THE MANAGERS

The American Club made progress in 2011, despite a challenging business environment.

A confluence of negative business trends made the year an unsettled period for both shipowners and their clubs. It was characterized by a continuing oversupply of tonnage seeking employment within a struggling global economy, depressed freight earnings, nervous investment markets, weak pricing power and elevated sensitivity, rising claims trends and widening tail risks both for shipping and for the industries ancillary to it.

Nevertheless, despite these challenges, the American Club was able to keep pace with the demands made upon it, and maintained momentum in pursuing its strategic aims.

# Entered Tonnage, Underwriting and Reinsurance

The 2011 renewal took place against a background of encouraging claims trends offset by poor freight market conditions, exacerbated by a thoroughly hostile economic climate.

The Board had ordered that a 2% general increase should apply to expiring advance calls for 2011 and that the forecast supplementary calls for the year be 25% of relevant advance calls, as had been the case for the previous year. Increases in deductibles and other variations of insurance conditions were also to be applied where appropriate.

The 2011 renewal featured a small decline in the Club's portfolio, although the total tonnage renewed as of February 20, 2011 was about 3% greater than it had been twelve months earlier. The year-on-year cash increase in premium on renewing business was just over 1% compared with the 2% target. However, as in the case of other renewals, there was some trading of premium increases against higher deductibles and other restrictions in insurance terms.

For 2012, a general increase of 5% was ordered across all classes of the Club's business. Mutual premium was redefined as estimated total premium for the year, subject to a zero supplementary call forecast. For mutual P&I entries, all estimated total premium was ordered to be debited in five equal installments during the 2012 calendar year, with the fifth installment to be deferred for payment in May, 2013. FD&D premium was to be debited in two equal installments during the calendar year, the release call for both classes being set at a margin of 20% over and above estimated total premium.

The 2012 renewal saw an overall cash increase, year-on-year, of approximately 2.75% which, when the monetary value of deductibles and other restrictions of insurance conditions is taken into account, meant an overall uplift of about 3.5% by comparison with a target of 5%. Although there was a slight reduction in renewing tonnage, the year-on-year gain of 8% for P&I was encouraging. Indeed, over the three years since February 20, 2009, the cumulative growth of the Club's tonnage has been 23%.

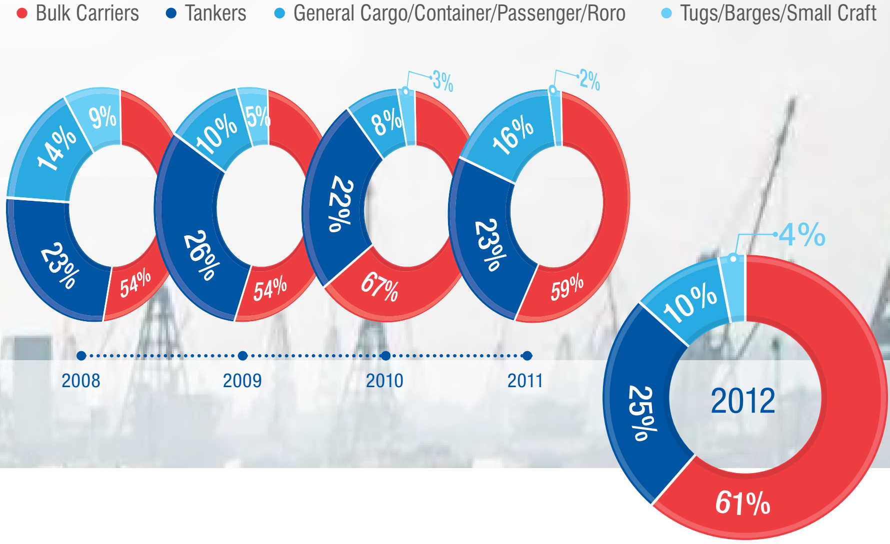
At the commencement of the 2012 policy year, the dry bulk sector, at 61% of the total, remains the largest constituency of the Club's entry by reference to tonnage. This figure compares with 59% of the total a year earlier. General cargo, passenger, container and RoRo vessels account for 10% of the total (16% a year earlier) while 25% of the total comprises tankers (23% twelve months ago). The tug, barge and small craft sector, at 4%, is now the smallest part of the total by tonnage, but is much larger by reference to premium and unit numbers. The breakdown of Members' tonnage by vessel type is set out in the chart on page 13.

As to domicile of management, Europe remains the largest region by tonnage, at 46% of the total. However, the proportion of tonnage entered by Asian Members continues to grow. It is now some 40%. The entry of Members from North America – predominantly the United States - has remained relatively constant over the years, the figure for 2012 now being approximately 11% by comparison with 13% a year earlier, with entries from the rest of the world accounting for a further 3%. A breakdown of the Club's tonnage by reference to membership domicile is set out on page 15.

In premium terms, the three main constituencies of the Club's business are much more closely aligned. Members domiciled in Europe contribute about 33% of total premium, those from Asia about 30%, and those headquartered in North America about 29%.

On the reinsurance front, the Club's arrangements during 2011 were broadly unchanged from those of 2010.

## MEMBERS' TONNAGE BY VESSEL TYPE




## TONNAGE

*Since February 20, 2009, the cumulative growth of the Club's tonnage has been 23%.*

Participation in the International Group of P&I Clubs' reinsurance program continued, entailing a retention of $8 million per claim and sharing in the Group Pool for a further $52 million over and above that figure. The lower layer of the Pool remained at $22 million during 2011, the upper tranche (i.e. $30 million excess of $30 million) being reinsured by the International Group's Bermuda-based captive, Hydra Insurance Company Limited.

For 2012, the arrangements remain substantially the same as those for 2011, the only material difference being a change in the structure of the Pool. Under the new design, clubs' contributions to the lower Pool layer from $8 million to $45 million will be assessed on the current tripartite formula. For the upper Pool from $45 million to $60 million, 10% will be borne exclusively by the club bringing the claim and 90% shared between all clubs on a tonnage basis. Hydra will continue to reinsure the $30 million excess $30 million Pool layer, but only as to 90% of the top $15 million tranche. A schematic of the Group's program is set out on page 19.

As to the protection of the Club's retained exposure, the arrangements for 2011 were a little different from those of the previous year, it proving possible to standardize the attachment point within the retention, although there was a small differential as to AAD absorption. Partner Re took a 50% order with syndicates at Lloyd's taking a further 35%, and Torus UK the balance of 15%.

2012 sees the same pattern of cover, and at broadly the same cost. However, bearing in mind the recent volatility of the Group Pool, it was decided to purchase a lower Pool protection for 2012 with Hannover Re.

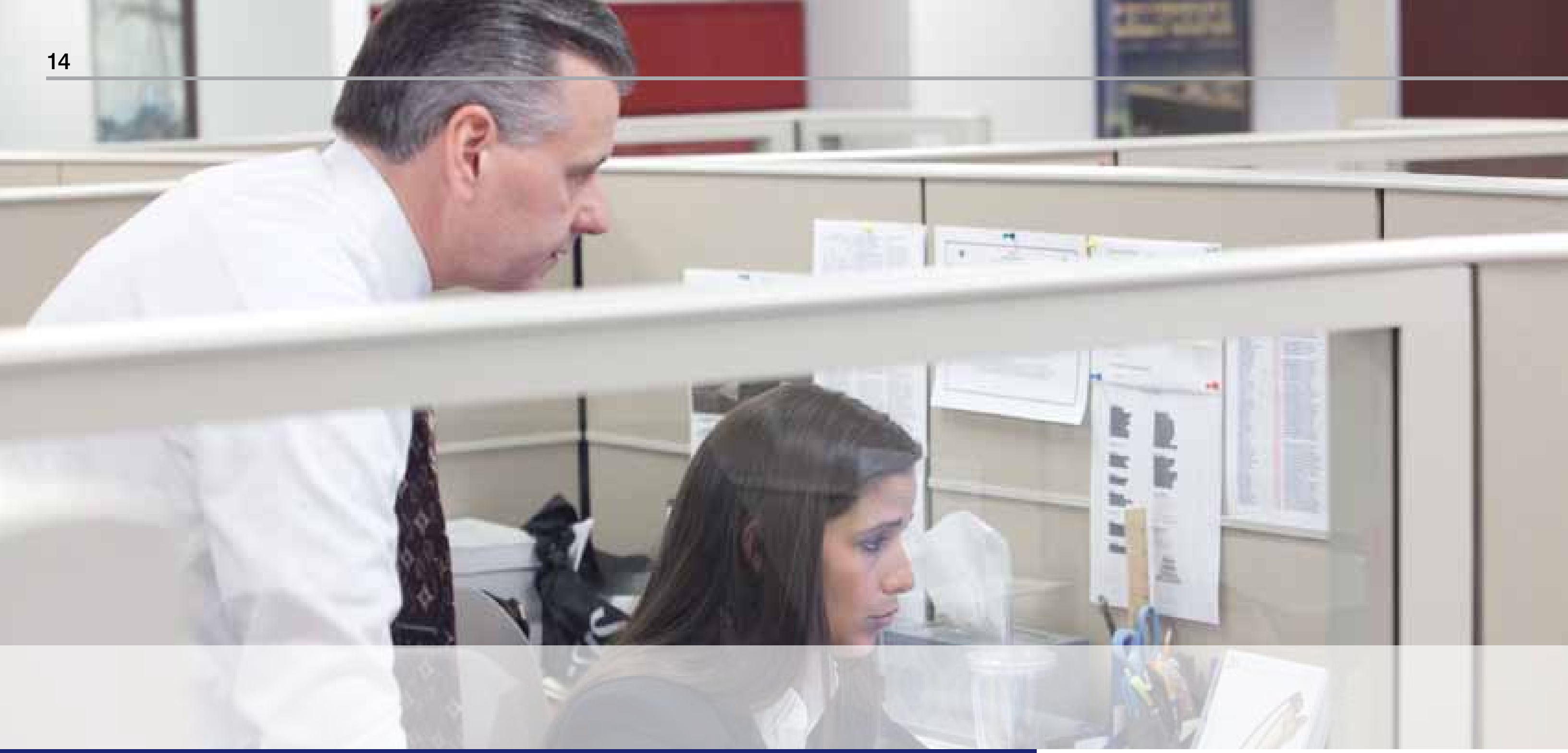
The cover has provisions in regard to commutation and profit commission which provide considerable flexibility to the Club in handling the contract, the overall purpose of which is to provide a leveling of Pool exposure over time, given the upward spikes to which the Pool has in recent years been prone. For 2011 the RENA and COSTA CONCORDIA claims have figured prominently in overall Pool exposure, and coincidentally received a significant amount of press comment. The salient characteristics of these incidents are commented upon in the section on claims below.

The American Club also diversified its activity during 2011 through participation in the Eagle Ocean Marine facility – a fixed premium product for the insurance of P&I and FD&D risks for smaller ships in local and regional trades, principally in the Far East, Europe and other areas outside the United States.

The facility – managed by Eagle Ocean Agencies, Inc., a sister company of the Managers – has started well. The Club's participation is supported by a quota-share reinsurance program at Lloyd's and elsewhere and looks to develop favorably for the overall benefit of the membership at large over the years ahead.

On the rating front, it was pleasing to obtain a Standard & Poor's upgrade in November, 2011. At that time the Club's counterparty credit and financial strengths rating was increased a full notch to BB+, with a stable outlook, from BB.

The Club's year-end surplus was slightly lower than that recorded at the end of 2010, as commented upon in the Report of the Directors. As mentioned there, this was for the most part due to some deterioration of claims in earlier years as well as the subdued performance of the investment markets during 2011. It is hoped that, as of the first quarter of 2012, the position will have improved as the full policy year premium for 2011 comes to be recognized.



## Supplementary and Release Calls

The period under review saw the formal closing of the 2008 policy year, without call in excess of recent forecasts, as of March 31, 2011.

The forecast 25% supplementary call for 2010 was levied toward the end of that year and fell due for payment in two equal installments on July 20 and October 20, 2011.

It is pleasing to note that no unforecast additional calls were levied for any year during the course of 2011. So far as release calls are concerned, the margin for the 2009 policy year was reduced to 10% in November 2011, while those for the 2010 and 2011 remain at 25% of relevant advance calls. The release call margin for 2012 is 20% of the currently forecast total premium for the year.

## Finance and Investments

2011 was not a good year for investors – at least those of the conventional sort.

Enduring macroeconomic and political concerns created a climate of great uncertainty and unusual volatility within the capital markets. The global economy's continuingly difficult climb out of the recessionary conditions generated by the financial collapse of 2008 created a challenging backdrop for investment policy in general, while perceptions of the Eurozone debt crisis incited a tempestuous market environment, particularly in the equities sector, as each turn of the political melodrama in Europe played itself out.

Unsurprisingly, and despite a good start for equities in the opening months of 2011, much of the year saw investors seeking safety in preference to yield. US Treasuries remained a haven throughout the year, with short- and medium-dated obligations exhibiting yields at historic lows. There was better value to be found in municipals and corporate debt, but for much of 2011 it was decidedly a case of "game off" as far as risk assets were concerned.

These circumstances changed toward the end of the year, as a resolution to the problems of the Eurozone came to look more likely, assisted by European Central Bank easing through LTROs focused on the banking sector, and as the US economy began to show signs

## INVESTMENTS

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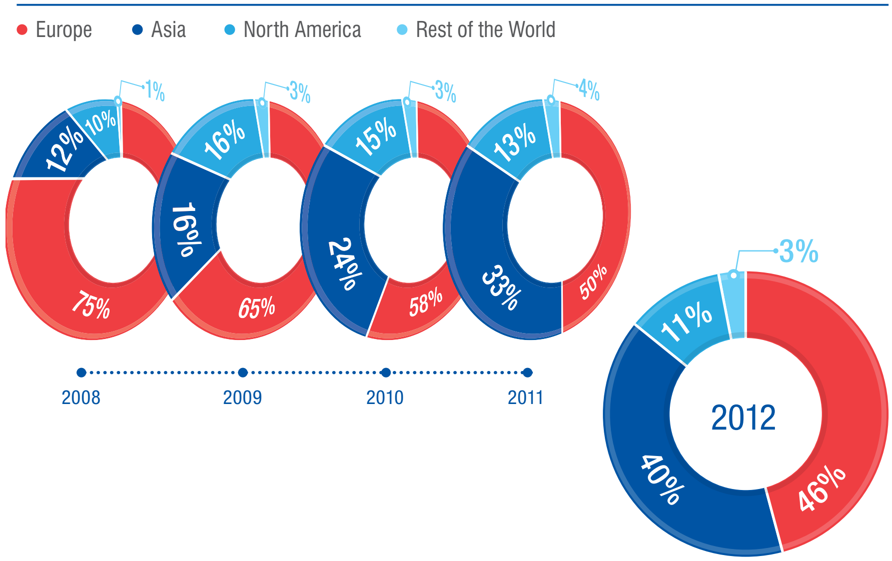
of sustainable improvement. These more benign conditions have continued into the early part of 2012 with all the major stock market indices having risen substantially between the late fall of 2011 and the end of the first quarter of 2012.

The American Club enjoyed a 3.5% return on its portfolio during the year under review. The fixed income portion earned 7.9%, while that committed to equities returned a negative 1.7% over the year to December 31, 2011.

Under the guidance of the Finance and Audit Committee, assisted by the Club's investment advisors, Merrill Lynch, the Board amended its investment guidelines as of November, 2011, reducing the equities range to 15% to 35%, and concomitantly increasing the fixed income range to 45% to 65%. At the beginning of the year the Club had 32% of its portfolio committed to the equities space, with the remainder (68%) allocated to fixed income, real assets, absolute return funds and cash. By December 31, 2011, the figures had changed to 22% and 78%, (fixed income 69%) respectively.

The opening months of 2012 have proved more encouraging for risk assets in particular. By the end of the first quarter the Club had returned 3.7% year-to-date overall and 12.1% in regard to its equity investments. How these trends develop for the balance of 2012 remains, of course, to be seen. The year is an important one for many reasons, not least of which are ongoing, or impending, political change in a number of major economies including Russia, France, China and, of course, the United States.

### MEMBERS' TONNAGE BY MANAGEMENT DOMICILE



# Claims

The Club's claims experience during 2011 emerged in two distinct phases.

Coming off an exceptionally benign 2010, the first six months of 2011 saw moderate claims development, broadly in line with that of the previous year. However, and by contrast, a number of claims in excess of $1 million arose in the final six months of the policy year, leading to an emergence more in line with that of 2009.

As to claims for the Club's own account, 2011, after thirteen months' development from inception, has proved to be the second lightest over the last ten years. A total incurred of $45 million at that point was $12 million higher than 2010 at the same stage of development, but $9 million less than 2009 and $24 million lower than 2008 at the same point.

Only six claims in excess of $1 million for the Club's own account have been recorded in 2011 to date. As is typically the case, 98% of all claims have fallen within the attritional layer of $250,000 per incident or less. Although the aggregate total for 2011 is somewhat higher than that which obtained a year earlier, the trend has been broadly favorable, as in the case of 2009 and 2010, and certainly within the originally budgeted outturn for the year, including allowances for IBNR.

As in previous years, the dominant claims categories continued to be those in respect of cargo, collision, third party property damage and personal injury, illness and death. In the aggregate, claims within these categories accounted for 70% of the total incurred exposures by value in 2011.

In this context, it is interesting to note that the number of cargo claims in 2011 (212) was lower than that at the same point of development for 2010 (349) and fell below the previous six-year low set in 2009 (266). However, there was a countervailing increase in the average size of a typical cargo claim which rose to just over $59,000 per incident.

2011 also saw a reduction in collision incidents during the year with only 54 reported. This was the lowest for several years. In addition, the average cost of such collision incidents has, to date, been the lowest for the last four policy years. No American Club vessel sank due to a collision, or otherwise, in 2011.

As to claims for injury or death in respect of crew, stevedores or third parties, figures for 2011 were broadly in conformity with those of recent years. Further, it is again gratifying to note the steady decline in incident count over the past several years in this sector which, it is to be hoped, will be a continuing trend in the future.

Class II (Freight, Demurrage and Defense) claims in 2011 saw development much in line with the year before, with market forces placing tremendous pressure on Members' commercial counterparties. The number of charterers filing for liquidation or reorganization protection in bankruptcy courts around the world has mounted considerably and, by extension, caused difficulties for the Club's Members. There is unlikely to be any abatement of this trend over the medium term while the chartering markets remain under stress.

If the Club's experience of claims for its own account in 2011 was – if not of the very benign nature experienced in 2010 – nonetheless better than most earlier years in recent memory, the same cannot be said as to claims shared by the International Group of P&I clubs under the Pooling Agreement to which the American Club is a party.

Two notable claims occurred during the year under review. The COSTA CONCORDIA cruise ship disaster off the Italian island of Giglio in January, 2012 dominated not only media headlines but

## CLAIMS

*The Club's claims experience during 2011 emerged in two distinct phases.*

also the overall experience of large claims during 2011. The RENA grounding and wreck removal off New Zealand was another high profile accident. Both claims, as might be expected, have run through the Pool and substantially into the market reinsurance sitting above it.

As to the Pool generally, 2011 is emerging significantly worse than its immediately predecessor years, and more along the lines experienced in the middle of the last decade, specifically as to the 2006 and 2007 policy years. Although there have only been eleven Pool claims recorded as of February 20, 2012, the aggregate value of those claims – two of the largest of which are described above – appears to be developing at least in line with the totals for those two earlier years and may ultimately exceed them. In any event, it remains to be seen how 2011 further develops over time, and what 2012 and future years bring to the Pool.

# Activity within the International Group of P&I Clubs

The American Club continued to play an active role in the affairs of the International Group during 2011. The Group faced a number of challenges over the year. The diversity of these challenges, and the issues addressed by the Group, remained as wide as ever.

The investigation into the affairs of the Group by the European Commission, which was initiated in 2009, looked set to continue into 2012. A change in the make-up of the Commission's case team toward the end of 2011 suggested that the final determination would take longer than envisioned when the investigation began.

The Group was also closely involved in the review of legislation concerning sanctions, notably those imposed upon Iran. The American Club monitored these developments very closely, and kept its Members fully informed of their implications as to cover, particularly in regard to the various embargoes which were applied by the United States and the European Union as the year unfolded.

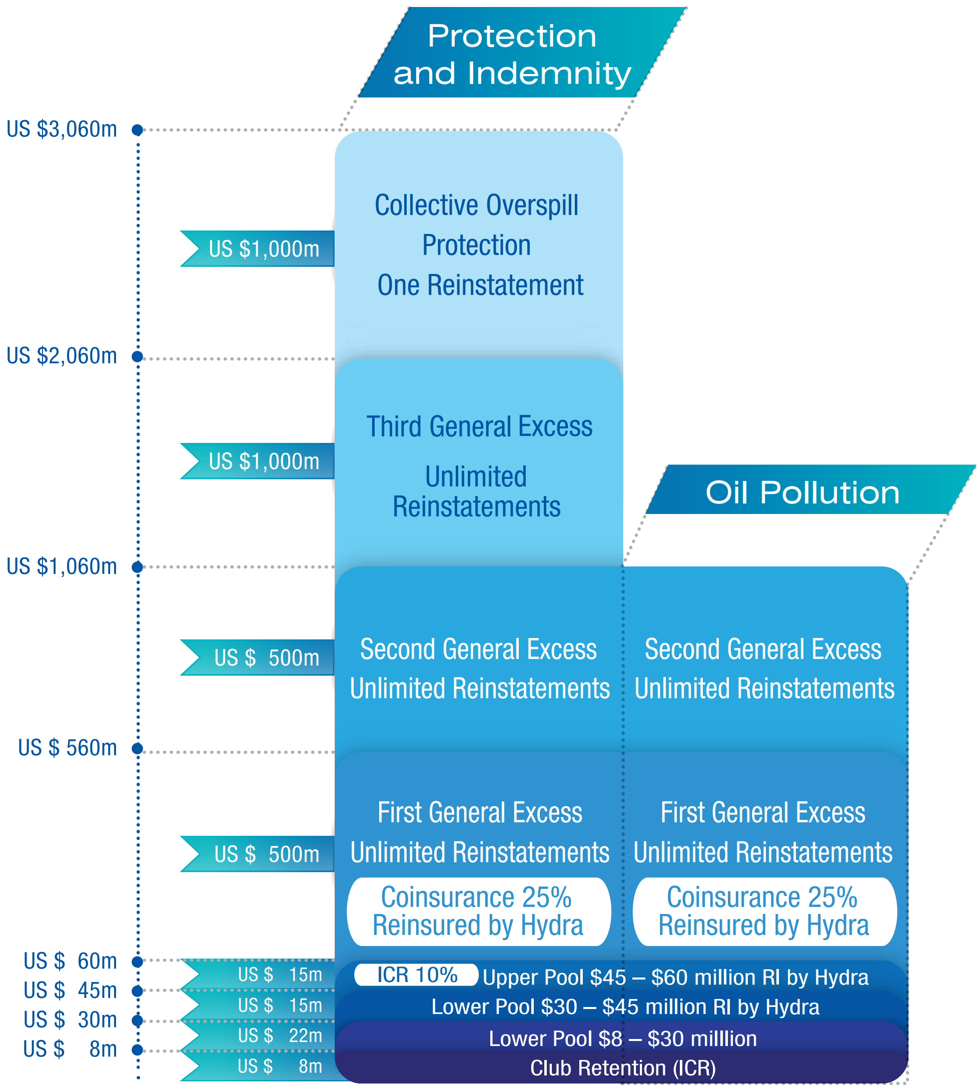
The incidence of piracy from the Gulf of Aden through the Horn of Africa and, increasingly, into the Indian Ocean continued. The Group continued to engage with other concerned organizations on a number of industry and naval/military initiatives. Through them, the Group has continued to address the underlying piracy problem, and the impact of these incidents, particularly in regard to the short and long-term effects on the welfare of hijacked crews.

During 2011 the Group focused its attention on the liquefaction of certain types of solid bulk cargoes. Over a number of years, problems arising from the carriage of such cargoes have required both the Group and its constituent clubs to coordinate preventative efforts with other industry groups, in particular the International Maritime Organization. Various circulars were issued during the year on this subject, which remains under the close surveillance of Group Sub-committees.

Another important issue to which the Group turned its attention during 2011 was the Athens Convention 2002 Protocol and the EU Passenger Liability Regulation 329/2009 (the PLR). This created certain issues of policy for Group clubs. They were referred to club boards and committees, as a result of which there was near unanimity that the requirements of the PLR, specifically in regard to certification, should be met notwithstanding a preference that IMO conventions be accorded priority, as a matter of principle, in establishing the basis for certification in the future.

## INTERNATIONAL GROUP

*The Group faced a number of challenges over the year...the issues addressed by the Group remained as wide as ever.*




SCHEMATIC OF INTERNATIONAL GROUP REINSURANCE ARRANGEMENTS FOR OWNERS' ENTRIES 2012

# Safety and Loss Prevention

The development and enhancement of loss prevention initiatives continued to be an American Club priority during 2011.

On the survey front, the number of vessel inspections increased by just under 4% during the year. Some 278 surveys were conducted during the period.

The Club's pre-employment medical examination (PEME) program was upgraded. In November 2011, the Club revised its medical guidelines in a manner informed by its decision, in June, to extend the life of medical certificates to two calendar years in line with the provisions of the Maritime Labor Convention, 2006. Additionally, a hologram security sticker system was put into place to protect Members from possible forgeries of relevant certificates. The Club also extended the range of approved clinics in India, Indonesia and Romania.

In cooperation with IDESS Interactive Technologies, Inc., the Club continued the development and delivery of computer-based e-learning tools to assist Members in the training of their personnel both onboard ship and in their shoreside offices.

Two training modules were delivered during the year. ***The Case of the Silent Assassin*** addressed the hazards of entering enclosed spaces, while another module dealt with compliance with the United States Environmental Protection Agency's vessel general permit (VGP). The Club also delivered a "plug and play" facility making it easier and more convenient for seafarers to access the learning modules at sea.

The Club's practice of conducting workshops and training seminars continued during 2011, while Circulars, Member Alerts and the Club's in-house publication, ***Currents***, were used as vehicles to disseminate important claims trends and loss prevention initiatives.


SAFETY AND LOSS PREVENTION

*The development and enhancement of loss prevention initiatives continued to be an American Club priority during 2011.*

## Staying Competitive in a Challenging World

2011 was a year of almost unprecedented difficulty for the shipping industry. 2012 is unlikely to be much better.

The need to maintain a competitive edge has never been greater. The American Club is acutely conscious of this imperative, and what it implies in satisfying – and, indeed, exceeding – its Members' expectations.

Being aware that competitiveness is a multi-faceted concept, where price and value are related but by no means the same, the American Club has a clear view of what being competitive means in a challenging business environment.

It means maintaining strong core capabilities to the highest industry standards. It means nurturing constant improvement in service supply. It entails an intimate understanding of, and engagement with, Member needs and expectations. It implies differentiation through service and specialization. It recognizes that premium pricing should be realistic, but sensible. It demands that the collective interests of the mutuality should inform the most basic principles guiding the Club's affairs.

Members have the right to expect that these elements of the Club's competitiveness be intrinsic to all their dealings with the Club. They should expect a Club which keeps pace with changing developments and demands, operates in a spirit of collaboration, strives to be flexible and resourceful, fosters a Member-centric approach yet remains true to the service of the mutuality's collective mission.

The American Club has worked hard in recent years to improve its competitiveness. It has made great progress along the way. It remains dedicated to further improvement over the years ahead. This will mean rising to further challenges in the future. 2012 will not be an easy year, although there is hope that the slow recovery of the global economy will lead to a better business climate over the medium-term.

The Club's focus on the future has never been sharper. Fulfilling its vision will continue to require the single-minded commitment of the Managers. It will also depend upon the loyal support of the Club's Board of Directors, Members and its many friends at home and abroad, to whom its future is dedicated, and to whom thanks for another successful year are most warmly extended in closing.

# FINANCIAL REPORT

## Contents

# Independent Auditors' Report

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American Steamship Owners Mutual Protection and Indemnity Association, Inc.

We have audited the accompanying consolidated balance sheets of American Steamship Owners Mutual Protection and Indemnity Association, Inc. (the "Association") as of December 31, 2011 and 2010, and the related consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2011 and 2010, 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.

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

Deloitte & Touche LLP

June 20, 2012

# 2011 Consolidated Balance Sheets

| IN THOUSANDS | NOTE | DECEMBER 31 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Investments | 3 | **$ 227,166** | $ 219,268 |
| Cash and cash equivalents | | **25,734** | 33,580 |
| Members' balances receivable | | **28,644** | 28,225 |
| Reinsurance recoverable | 5 | **61,064** | 52,041 |
| Other assets | 4 | **15,440** | 9,953 |
| **Total Assets** | | **$ 358,048** | $ 343,067 |
| **LIABILITIES AND MEMBERS' EQUITY** | | | |
| **LIABILITIES:** | | | |
| Unpaid losses and allocated loss adjustment expenses | 5 | **$ 218,354** | $ 207,897 |
| Unreported losses | 5 | **43,548** | 41,995 |
| Unearned premiums | | **17,478** | 15,547 |
| Reinsurance payable | | **6,596** | 2,876 |
| Other liabilities | 4 | **11,853** | 11,140 |
| **Total Liabilities** | | **$ 297,829** | $ 279,455 |
| **COMMITMENTS AND CONTINGENCIES** | | | |
| **MEMBERS' EQUITY:** | | | |
| Retained earnings | | **56,617** | 54,198 |
| Accumulated other comprehensive income | | **3,602** | 9,414 |
| **Total Members' Equity** | 9, 10 | **60,219** | 63,612 |
| **Total Liabilities and Members' Equity** | | **$ 358,048** | $ 343,067 |

See Notes to Consolidated Financial Statements.

## 2011 Consolidated Statements of Operations and Comprehensive Income

| IN THOUSANDS | NOTE | DECEMBER 31 2011 | DECEMBER 31 2010 |
|---|---|---|---|
| **INCOME:** | | | |
| Net premiums and assessments earned | 6 | $ **95,672** | $ 105,269 |
| Net investment income | | **5,872** | 4,108 |
| Realized investment gains | | **7,301** | 5,799 |
| **Total Income** | | **108,845** | 115,176 |
| **EXPENSES:** | | | |
| Losses and loss adjustment expenses incurred | 5 | **72,986** | 69,236 |
| Other operating expenses | 7 | **33,045** | 34,691 |
| **Total Expenses** | | **106,031** | 103,927 |
| **Income Before Income Taxes** | | **2,814** | 11,249 |
| Income tax (provision) benefit | | **(395)** | 55 |
| **Net Income** | | **2,419** | 11,304 |
| **OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAXES:** | | | |
| Unrealized (losses) gains on investments | | **(5,812)** | 3,977 |
| **Other comprehensive (loss) income** | | **(5,812)** | 3,977 |
| **Comprehensive (loss) Income** | | $ **(3,393)** | $ 15,281 |

## 2011 Consolidated Statements of Changes in Members' Equity

| IN THOUSANDS | NOTE | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME | TOTAL MEMBERS' EQUITY |
|---|---|---|---|---|
| **Balance, January 1, 2010** | | $ **42,894** | $ **5,437** | $ **48,331** |
| Net income | | **11,304** | **—** | **11,304** |
| Unrealized investment gains | | **—** | **3,977** | **3,977** |
| **Balance, December 31, 2010** | | **54,198** | **9,414** | **63,612** |
| Net income | | **2,419** | **—** | **2,419** |
| Unrealized (losses) on investments | | **—** | **(5,812)** | **(5,812)** |
| **Balance, December 31, 2011** | 9, 10 | $ **56,617** | $ **3,602** | $ **60,219** |

See Notes to Consolidated Financial Statements.

## 2011 Consolidated Statements of Cash Flows

| IN THOUSANDS | DECEMBER 31 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Income | **$ 2,419** | $ 11,304 |
| **Adjustments to reconcile net income to net cash provided by (used in) operating activities:** | | |
| Amortization of bond premiums | **1,919** | 1,182 |
| Realized invesment gains | **(7,301)** | (5,799) |
| Depreciation | **174** | 273 |
| | **(5,208)** | (4,344) |
| **Changes in operating assets and liabilities:** | | |
| Members' balances receivable | **(419)** | 11,802 |
| Reinsurance recoverable | **(9,023)** | 43,095 |
| Other assets | **(5,566)** | (312) |
| Unpaid and unreported losses and allocated loss adjustment expenses | **12,010** | (33,262) |
| Unearned premiums | **1,931** | 744 |
| Reinsurace payable | **3,721** | 8 |
| Other liabilities | **(1,787)** | 1,505 |
| | **867** | 23,580 |
| **Net cash (used in) provided by operating activities** | **(1,922)** | 30,540 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Proceeds from sales/maturities of investments | **138,520** | 132,693 |
| Purchases of investments | **(146,849)** | (152,766) |
| Purchases of fixed assets | **(95)** | (64) |
| **Net cash (used in) investment activities** | **(8,424)** | (20,137) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from note payable | **15,000** | 7,500 |
| Payment of note payable | **(12,500)** | (10,000) |
| **Net cash provided by (used in) financing activities** | **2,500** | (2,500) |
| **Net change in cash and cash equivalents** | **(7,846)** | 7,903 |
| **Cash and cash equivalents, beginning of year** | **33,580** | 25,677 |
| **Cash and Cash Equivalents, End of Year** | **$ 25,734** | $ 33,580 |
| **Supplemental Information:** | | |
| Income taxes paid | **$ 7** | $ 223 |
| Interest paid | **$ 114** | $ 118 |

See Notes to Consolidated Financial Statements.

# 2011 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 2011 and 2010 policy years, at December 31, 2011 and December 31, 2010, the gross tonnage insured was 17,167,117 and 15,967,584, respectively.

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

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

On July 1, 2011, the Association began writing fixed premium protection and indemnity policies. The facility is managed by Eagle Ocean Agencies, Inc. ("EOA") using the trading name of Eagle Ocean Marine, under a management contract with SCB. EOA provides administrative, underwriting, accounting and claims processing services on a commission basis. The facility provides an insurance option for operators of smaller vessels, generally 12,500 gross tons or less, who prefer fixed premium limited cover rather than a mutual product with full International Group Pooling limits. The cover is available to operators worldwide, excluding operators based in the United States or trading exclusively in US waters. The cover is limited to $50 million for protection and indemnity and $2 million for freight, demurrage and defense. The Association provides the security for the primary layer of $25 million and $2 million, which is then protected by reinsurance on a quota share basis. For the period July 1, 2011 through June 30, 2012, the percentage reinsured is 85%. The excess layer, $25 million excess $25 million is provided directly from an outside reinsurer without the involvement of the Association.

## 2. Summary of Accounting Policies

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

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

Other invested assets, consisting primarily of investments in funds or partnerships, are reported at fair value. Fair values are determined based on the Association's proportionate share of the underlying equity of the funds.

A review of investments is performed as of each balance sheet date with respect to investments where the market value is below cost. This review involves consideration of several factors including: (i) the significance of the decline in value and the resulting unrealized loss position; (ii) the time period for which there has been a significant decline in value; (iii) an analysis of the issuer of the investment, including its liquidity, business prospects and overall financial position; and (iv) the Association's intent and ability to hold the investment for a sufficient period of time for the value to recover. The Association uses investment portfolio managers to manage the investment portfolio. Such portfolio managers are supervised by the Association and SCB. The identification of potentially impaired investments involves significant management judgment that includes the determination of their fair value and the assessment of whether any decline in value is other than temporary. If the decline in value is determined to be other than temporary, then the Association records a realized loss in the consolidated statements of operations and comprehensive income in the period that it is determined, an the cost basis of that investment is reduced.

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 – Comprised of 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 trustees or dealers. Such services or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities.

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

**Fair Value Measurement** – ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

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

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

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

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

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

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

For the fixed premium facility for nonmembers, premiums are deferred and earned on a pro–rata basis over the terms of the policies, typically twelve months. The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums.

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

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

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

In October 2010, the FASB issued ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. ASU 2010-26 modifies the types of costs incurred by insurance entities that are deferred in the acquiring or renewing of insurance contracts. ASU 2010-26 requires that only direct incremental costs related to successful efforts are capitalized. Capitalized costs may include certain advertising costs which are allowed to be capitalized if the primary purpose of the advertising is to elicit sales to customers proven to have responded directly to the advertising and the probable future revenues generated from the advertising are proven to be in excess of expected future costs to be incurred in realizing those revenues. ASU 2010-26 is effective for fiscal years and interim periods beginning after December 15, 2011 and may be applied on a prospective or retrospective basis. The Association is evaluating the effect that the adoption of ASU 2010-26 will have on the consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, “Improving Disclosures About Fair Value Measurements.” ASU 2010-06 requires the separate disclosure of significant transfers into and out of the Level 1 and Level 2 categories; requires fair value measurement disclosures for each class of assets and liabilities; and requires disclosures about valuation techniques and inputs used in Level 2 and Level 3 fair value measurements. These disclosure requirements became effective at the beginning of 2010. In addition, effective in fiscal years beginning after December 15, 2010, ASU 2010-06 also requires Level 3 disclosures of activity on a gross rather than a net basis. The adoption of ASU 2010-06 did not have a material impact on the Association financial position or results of operations.

### 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 2011 and 2010 were as follows:

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

| | COST OR AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES | FAIR VALUE |
|---|---|---|---|---|
| December 31, 2010: | | | | |
| US Treasury and obligations of other US government corporations and agencies | $ 7,807 | $ 3 | $ — | $ 7,810 |
| Obligations of states and political subdivisions | 115,800 | 985 | 2,329 | 114,456 |
| Industrial and Micellaneous Bond | 5,047 | 78 | — | 5,125 |
| Common stocks | 72,714 | 11,862 | 1,289 | 83,287 |
| Preferred stocks | 61 | 36 | — | 97 |
| Other invested assets | 8,425 | 138 | 70 | 8,493 |
| Total | $ 209,854 | $ 13,102 | $ 3,688 | $ 219,268 |

As of December 31, 2011 there were no security investments that were in a continuous unrealized loss position for more than twenty four months where other- than- temporary impairments (“OTTI”) losses were not recorded. As of December 2011 and 2010, we believe that the individual securities that had been in an unrealized loss position were temporary. Our belief is based on: (i) the Association’s assessment of the significance of the decline in value and the resulting unrealized loss position; (ii) the Association’s review of the time period for which there has been a significant decline in value; (iii) the Association’s assessment of the underlying business and financial conditions of the issuers; and (iv) the Association’s ability and intent to hold the investment for a sufficient period of time for the value to recover. The identification of potentially impaired investments involved significant management judgment that includes the determination of their fair value and the assessment of whether any decline in value is other than temporary. No one criteria listed above is considered independently of the others or independently of other qualitative factors in the final determination to impair an investment.

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

The following summarizes unrealized investment losses by class of investment at December 31, 2011 and 2010. 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, 2011:** | | | | | | |
| Obligations of states and political subdivisions | $ 6,769 | $ (50) | $ 1,200 | $ (39) | $ 7,969 | $ (89) |
| Industrial and Miscellaneous Bond | 1,060 | (3) | — | — | 1,060 | (3) |
| Common stock | 54,880 | (5,921) | 726 | (156) | 55,606 | (6,077) |
| Other invested assets | 3,833 | (270) | 826 | (41) | 4,659 | (311) |
| | **$ 66,542** | **$ (6,244)** | **$ 2,752** | **$ (236)** | **$ 69,294** | **$ (6,480)** |

| | 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, 2010: | | | | | | |
| Obligations of states and political subdivisions | $ 60,673 | $ (1,957) | $ 6,993 | $ (372) | $ 67,666 | $ (2,329) |
| Common stock | 34,409 | (1,045) | 4,821 | (224) | 39,230 | (1,289) |
| Other invested assets | 3,391 | (70) | — | — | 3,391 | (70) |
| | $ 98,473 | $ (3,072) | $ 11,814 | $ (616) | $ 110,287 | $ (3,688) |

The fair value and amortized cost of available-for-sale debt securities at December 31, 2011 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 | $ 22,321 | $ 22,452 |
| Due after one year through five years | 34,583 | 35,213 |
| Due after five years through ten years | 53,549 | 56,514 |
| Due after ten years | 18,538 | 19,324 |
| **Total** | **$ 128,991** | **$ 133,503** |

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

| | 2011 | 2010 |
|---|---|---|
| Proceeds from sales of investments | $ 138,520 | $ 132,693 |
| Gross realized gains | 11,528 | 9,761 |
| Gross realized losses | 4,227 | 3,962 |

There were no realized losses from investments being other-than-temporarily impaired recorded for the years ended December 31, 2011 and 2010.

At December 31, 2011 and 2010, United States Government Treasury notes in the amount of $303 thousand and $310 thousand par value, respectively, were deposited with regulatory authorities as required by law.

### Fair Value Hierarchy

In accordance with Fair Value Measurement Accounting Guidance, the Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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

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

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

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets;

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and

d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

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

As required by Fair Value Measurement Accounting Guidance, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

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

During the year ended December 31, 2011, certain fixed maturities with a fair value of $4.2 million were transferred from Level 1 into Level 2. The reclassifications to Level 2 consisted of Industrial fixed maturities. The transfers into Level 2 were due to the decrease in availability of quoted prices for similar assets in active markets used for valuation at December 31, 2011.

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS
AS OF DECEMBER 31, 2010

| | TOTAL FAIR VALUE | LEVEL 1 | LEVEL 2 | LEVEL 3 |
|---|---|---|---|---|
| US Treasury and obligations of other US government corporations and agencies | $ 7,810 | $ 7,810 | $ — | $ — |
| Obligations of states and political subdivisions | 114,456 | — | 114,456 | — |
| Industrial and Miscellaneous Bond | 5,125 | 5,125 | — | — |
| Common stocks | 83,287 | 83,267 | — | 20 |
| Preferred stocks | 97 | 97 | — | — |
| Other invested assets | 8,493 | — | — | 8,493 |
| Total Investments | $ 219,268 | $ 96,229 | $ 114,456 | $ 8,513 |

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, 2011 and 2010.

YEAR ENDED DECEMBER 31, 2011

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

YEAR ENDED DECEMBER 31, 2010

| | COMMON STOCK | OTHER INVESTED ASSETS | TOTAL |
|---|---|---|---|
| Opening balance January 1, 2010 | $ 20 | $ 8,961 | $ 8,981 |
| Total Gain or Losses included in earnings: (realized/unrealized) | | | |
| Realized gains (losses) | — | (357) | (357) |
| Change in fair value of other invested assets | — | 840 | 840 |
| Purchanse or (sales): | | | |
| Purchase | — | 3,604 | 3,604 |
| Sales | — | (4,555) | (4,555) |
| Transfer in (out) of Level 3 | — | — | — |
| Ending balance, December 31, 2010 | $ 20 | $ 8,493 | $ 8,513 |

## 4. Other Assets and Liabilities

| | 2011 | 2010 |
|---|---|---|
| **Other Assets** | | |
| Computer equipment and software - net of accumulated depreciation of $5,930 and $5,756, respectively | $ 362 | $ 441 |
| Receivable for securities sold | 217 | 946 |
| Accrued interest receivable | 1,521 | 1,514 |
| Income tax recoverable | 61 | 449 |
| Prepaid reinsurance premiums | 2,882 | 1,107 |
| Management fee receivable | 1,308 | 1,140 |
| Income tax recoverable | 2 | — |
| Advance for general average contributions | 4,950 | — |
| Other assets | 4,137 | 4,356 |
| | **$ 15,440** | **$ 9,953** |
| **Other Liabilities** | | |
| Accrued expenses | 724 | 753 |
| Liability for securities purchased | 1,115 | 2,870 |
| Note payable | 10,014 | 7,511 |
| Income tax payable | — | 6 |
| | **$ 11,853** | **$ 11,140** |

An unbilled assessment in the amount of $3 million and $3.9 million at December 31, 2011 and 2010, respectively, was recorded as a result of the Association’s asbestos-related claims settlement agreement.

On December 31, 2011 and 2010 the Association owed $10 million and $7.5 million, respectively, on a demand line of credit from Deutche Bank Trust Company America (“credit facility”). During 2011, the Association paid off the $12.5 million line of credit and borrowed an additional $2.5 million. Interest on the credit facility is calculated using a 3 month LIBOR plus 1 percent, which was stated at a rate of 1.514 at December 31, 2011. Interest accrued at December 31, 2011 and 2010 was $14 thousand and $11 thousand, respectively. Interest expense for the years ended December 31, 2011 and 2010 was $118 thousand and $87 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:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Gross balance at January 1 | $ | 249,892 | $ | 283,154 |
| Less reinsurance recoverables | | 49,177 | | 76,964 |
| **Net Balance at January 1** | | **200,715** | | 206,190 |
| Incurred related to: | | | | |
| Current year | | 65,071 | | 61,440 |
| Prior years | | 7,915 | | 7,796 |
| **Total Net Incurred** | | **72,986** | | 69,236 |
| Paid related to: | | | | |
| Current year | | 7,593 | | 6,296 |
| Prior years | | 59,923 | | 68,415 |
| **Total Net Paid** | | **67,516** | | 74,711 |
| Net balance at December 31 | | **206,185** | | 200,715 |
| Plus reinsurance recoverables | | 55,717 | | 49,177 |
| **Gross Balance at December 31** | **$** | **261,902** | $ | 249,892 |

In 2011, loss emergence for prior years increased by $7.9 million. The increase reflects an emergence of $4.6 million for the 2010 policy year, which turned out to be better than the expected emergence of $9.9 million from the balance of the 2010 policy year ended February 20, 2011. However, there was unfavorable emergence of $3.3 million for policy years 2009 and prior.

In 2010, loss emergence for prior years increased by $7.8 million. The increase reflects an emergence of $11.8 million for the 2009 policy year, which turned out to be better than the expected emergence of $11.3 million from the balance of the 2009 policy year ended February 20, 2010. In addition, there was favorable emergence of $4 million for policy years 2008 and prior.

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Reinsurance recoverable on unpaid losses | $ | 55,717 | $ | 49,177 |
| Reinsurance recoverable on paid losses | | 5,346 | | 2,864 |
| | **$** | **61,064** | $ | 52,041 |

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

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Direct | $ | 67,300 | $ | 55,389 |
| Assumed | | 21,298 | | 11,978 |
| Ceded | | (15,612) | | 1,869 |
| | **$** | **72,986** | $ | 69,236 |

## 6. Premiums and Assessments

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Premiums written and billed assessments | $ | 114,686 | $ | 118,032 |
| Change in unbilled assessments | | (879) | | (827) |
| Return premiums | | (1,697) | | (1,752) |
| Reinsurance premiums ceded | | (16,283) | | (9,362) |
| **Net premiums and assessments written** | | **95,827** | | 106,091 |
| **Increase in net unearned premiums** | | (155) | | (822) |
| **Net Premiums and Assessments Earned** | **$** | **95,672** | $ | 105,269 |

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

In December 2010, a budgeted supplementary call of $19.8 million was levied for the 2010 policy year and is due in two separate installments on July 20 and October 20, 2011, respectively. An unbilled assessment at December 31, 2010 in the amount of $3.9 million was recorded as a result of the Association's asbestos-related claims settlement agreement.

## 7. Other Operating Expenses

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Management fee | $ | 14,457 | $ | 13,359 |
| Bad debts | | 2,264 | | 4,848 |
| Brokerage | | 10,716 | | 10,528 |
| Other | | 5,608 | | 5,956 |
| **Total Operating Expenses** | **$** | **33,045** | $ | 34,691 |

## 8. Commitments and Contingencies

**Letters of Credit** – At December 31, 2011, the Association had outstanding letters of credit for $48 million.

**Exposure to Asbestos-related and Environmental Claims** – 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.

| | | 2011 | | 2010 |
|---|---|---|---|---|
| **Asbestos-Related Claims** | | | | |
| Aggregate gross losses paid to date at December 31 | $ | 10,009 | $ | 9,130 |
| Loss reserves - reported | | 1,058 | | 1,141 |
| Loss reserves - unreported | | 1,918 | | 2,714 |

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

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

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

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

As a result of the Settlement Agreement, the Association recorded additional reserves of approximately $7 million at December 31, 2007. Pursuant with the terms of the Settlement Agreement, the Association has made $4.1 million in payments as of December 31, 2011. This represents a one-time $900 thousand payment related to 2006 as well as four payments of $800 thousand related to the 2007 through 2010 years. Additionally, the Association has made another $800 thousand payment in January 2012 related to 2011.

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

**Other Contingencies** – From time to time, asserted and unasserted claims are made against the Association in the ordinary course of business. Management of the Association does not believe that the outcome of any such proceedings will have a material adverse effect on the Association's financial position or result of operations.

## 9. Statutory Filings

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

The principal differences affecting the Association are described below:

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

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

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

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

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

| | 2011 | 2010 |
|---|---|---|
| Statutory surplus, as reported | $ 65,010 | $ 72,204 |
| Future assessments receivable up to difference between ultimate and present value of losses | (19,368) | (18,074) |
| Unbilled assessments, net | 2,976 | 3,855 |
| Nonadmitted assets | 6,056 | 4,506 |
| Carrying value of applications software and consultants' fees | 211 | 346 |
| Provision for unauthorized reinsurance | 571 | 189 |
| Allowance for doubtful accounts | (743) | (743) |
| Unrealized gains (losses) on available-for-sale securities | 4,512 | (1,263) |
| Statutory ULAE Adjustment | 3,539 | 3,032 |
| Hydra consolidation adjustment | (2,545) | (440) |
| **Members' Equity on the Basis of Accounting Principles Generally Accepted in the United States of America** | **$ 60,219** | $ 63,612 |

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

## 10. Open and Closed Years and Contingency Fund

The Association maintains separate accounting for each policy year, which runs from February 20 through February 20, and keeps policy years open until the Board of Directors resolve to close the year. Years are closed after the ultimate liabilities for that year are known with a high degree of probability. The 2008/09 policy year was closed on March 31, 2011, 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

| | 2009–10 | 2010–11 | 2011–12 |
|---|---|---|---|
| **INCOME:** | | | |
| Calls and premiums – net | $ 100,215 | $ 106,115 | $ 85,947 |
| Investment income | 4,950 | 3,843 | 2,132 |
| **Total Income** | **105,165** | **109,958** | **88,079** |
| **EXPENSES:** | | | |
| Net paid losses | 39,431 | 25,464 | 7,124 |
| Net pending losses | 35,961 | 34,196 | 32,296 |
| IBNR | 2,761 | 6,176 | 25,182 |
| Reinsurance premiums | 13,753 | 11,201 | 9,930 |
| Other operating expenses | 20,661 | 21,955 | 19,231 |
| **Total Expenses** | **112,567** | **98,992** | **93,763** |
| **RETAINED EARNINGS** | **(7,402)** | **10,966** | **(5,684)** |
| **MEMBERS' EQUITY: OPEN YEARS** | **$ (7,402)** | **$ 10,966** | **$ (5,684)** |

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

| | |
|---|---|
| 2009/10 | $ 6,391 |
| 2010/11 | $ 6,737 |
| 2011/12 | $ 6,958 |

(b) For the 2011/12 policy years calls and premiums are stated on an earned basis to December 31, 2011. Expenses are stated on an accrued basis for the same period.

## CLAIMS OUTSTANDING (INCLUDING IBNR) - OPEN YEARS

| | 2009–10 | 2010–11 | 2011–12 |
|---|---|---|---|
| Gross outstanding claims | | | |
| Members' claims | $ 45,027 | $ 32,767 | $ 48,477 |
| Other Clubs' Pool claims | 9,510 | 12,240 | 13,491 |
| | **54,537** | **45,007** | **61,968** |
| Pending reinsurance recovery | | | |
| From the Group excess of loss reinsurance | — | — | — |
| From the Pool | 8,568 | — | — |
| Other reinsurers | 7,426 | 4,636 | 4,490 |
| | 15,814 | 4,636 | 4,490 |
| **Net Outstanding Claims** | **$ 38,723** | **$ 40,371** | **$ 57,478** |

## DEVELOPMENT OF CLOSED POLICY YEARS AND CONTINGENCY FUND

| | 2011 | 2010 |
|---|---|---|
| **Closed Years' Balance, January 1** | **$ —** | $ — |
| **Total income earned** | **5,059** | 4,013 |
| Net paid losses | **25,248** | 30,895 |
| Net pending losses | **(16,775)** | (29,383) |
| Unreported losses (IBNR) | **(3,690)** | (2,864) |
| Reinsurance premiums | **(440)** | (36) |
| Other operating expenses | **193** | 4,804 |
| **Total expenses incurred** | **4,536** | 3,416 |
| Unrealized investment (losses) gains | **(5,812)** | 3,977 |
| Transfer from closed policy year 2007/08 | **12,510** | 15,395 |
| Transfer from closed policy year 2006/07 | **—** | — |
| Net change | **7,221** | 19,969 |
| Transfer to contingency fund | **(7,221)** | (19,969) |
| **Closed Years' Balance, December 31** | **$ —** | $ — |
| **Contingency Fund Balance, January 1** | **$ 55,118** | $ 35,149 |
| Transfer from closed policy years | **7,221** | 19,969 |
| **Contingency Fund Balance, December 31** | **62,339** | 55,118 |
| **Open Policy Years' Equity** | | |
| 2008/09 | **—** | 11,332 |
| 2009/10 | **(7,402)** | (7,537) |
| 2010/11 | **10,966** | 4,699 |
| 2011/12 | **(5,684)** | — |
| **Total Members' Equity** | **$ 60,219** | $ 63,612 |
| **Claims Outstanding (including IBNR) – Closed Years** | | |
| Gross pending losses | | |
| Members' claims | **$ 88,752** | $ 78,640 |
| Other Clubs' Pool claims | **11,638** | 12,615 |
| | **100,390** | 91,255 |
| Pending reinsurance recovery | | |
| From the Group excess of loss reinsurance | **375** | 375 |
| From the Pool | **17,413** | 14,198 |
| Other reinsurers | **12,989** | 13,754 |
| | **30,777** | 28,327 |
| **Net Pending Losses** | **$ 69,613** | $ 62,928 |

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

## 11. Leases

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

Rental expense for 2011 and 2010 was approximately $621 thousand and $682 thousand respectively. Future minimum rental payments, excluding any sublease income, are as follows:

| YEAR | AMOUNT |
|---|---|
| 2012 | $ 795 |
| 2013 | 795 |
| 2014 | 795 |
| 2015 | 795 |
| 2016 | 795 |
| Thereafter | 198 |
| **Total** | **$ 4,173** |

## 12. Average Expense Ratio

In accordance with Schedule 3 of the International Group Agreement 1999, the Association is required to disclose its Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment income, averaged over the five years ended December 31, 2011.

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, 2011 the ratio of 18.3% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 16.5% recorded for the five years ended December 31, 2010, an increase of 1.8%, due mostly to a decrease in premium written during 2011.

## 13. Subsequent Events

Subsequent events have been considered through June 20, 2012 for the audited financial statements to be issued on that date. No other events occurred subsequent to December 31, 2011, through June 20, 2012, which would have a material effect on the financial position, results of operations or cash flow of the American Steamship Owners Mutual Protection and Indemnity Association.

# Unaudited Supplemental Schedules

## Statement of Operations and Comprehensive Income Year's Ended December 31, 2011 and 2010

| | P&I | | FD&D | |
|---|---|---|---|---|
| IN THOUSANDS | 2011 | 2010 | 2011 | 2010 |
| **INCOME:** | | | | |
| Net premiums and assessments earned | **$ 90,637** | $ 99,677 | **$ 5,035** | $ 5,592 |
| Net investment income | **5,563** | 3,890 | **309** | 218 |
| Realized investment gains | **6,917** | 5,491 | **384** | 308 |
| **Total Income** | **103,117** | 109,058 | **5,728** | 6,118 |
| **EXPENSES:** | | | | |
| Losses and loss adjustment expenses incurred | **69,096** | 65,711 | **3,890** | 3,525 |
| Other operating expenses | **31,306** | 32,848 | **1,739** | 1,843 |
| **Total Expenses** | **100,402** | 98,559 | **5,629** | 5,368 |
| **Income Before Income Taxes** | **2,715** | 10,499 | **99** | 750 |
| Income tax (provision) benefit | **(374)** | 52 | **(21)** | 3 |
| **Net Income** | **2,341** | 10,551 | **78** | 753 |
| **OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX:** | | | | |
| Unrealized (losses) gains on investments | **(5,506)** | 3,766 | **(306)** | 211 |
| **Other comprehensive (loss) income** | **(5,506)** | 3,766 | **(306)** | 211 |
| **Comprehensive (loss) Income** | **$ (3,165)** | $ 14,317 | **$ (228)** | $ 964 |

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, 2011 and 2010

| IN THOUSANDS | 2011 | 2010 |
|---|---|---|
| **NET CLAIMS PAID** | | |
| **Gross claims paid:** | | |
| Members' claims | **$ 67,214** | $ 94,615 |
| Other Clubs' Pool claims | **9,374** | 6,013 |
| | **76,588** | 100,628 |
| **Recoveries on claims paid:** | | |
| From the Group excess of loss reinsurance | **34** | 2,286 |
| From the Pool | **4,332** | 16,922 |
| Other reinsurers | **4,706** | 6,709 |
| | **9,072** | 25,917 |
| **Net Claims Paid** | **$ 67,516** | $ 74,711 |
| **CHANGE IN NET PROVISION FOR CLAIMS** | | |
| **Claims outstanding:** | | |
| Members' claims | **$ 215,023** | $ 214,937 |
| Other Clubs' Pool claims | **46,879** | 34,955 |
| | **261,902** | 249,892 |
| **Reinsurance recoverables:** | | |
| From the Group excess of loss reinsurance | **375** | 383 |
| From the Pool | **25,981** | 22,301 |
| Other reinsurers | **29,361** | 26,493 |
| | **55,717** | 49,177 |
| Net claims outstanding at December 31 | **206,185** | 200,715 |
| Net claims outstanding at January 1 | **200,715** | 224,915 |
| **Change in Net Provision for Claims** | **$ 5,470** | $ (24,200) |

## The Mission of the American Club

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

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

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

## Board of Directors

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

**Markos K. Marinakis,** Deputy Chairman, MARINAKIS CHARTERING INC.

**Vassilios Bacolitsas,** SEA PIONEER SHIPPING CORP.

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

**Lawrence J. Bowles,** NOURSE & BOWLES, LLP

**Richard H. Brown, Jr.**

**Calvin W.S. Cheng,** EASTMARK ASSOCIATES, INC.

**James P. Corcoran**

**John E. Couloucoundis,** DELTA NAVIGATION, INC.

**Kenneth T. Engstrom,** INTERNATIONAL SHIPPING PARTNERS, INC.

**Cigdem Sarioglu Ergut,** SARIOGLU SHIPPING & TOURISM, LTD.

**Elias Gotsis,** EUROTANKERS INC.

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

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**Michael L. Murley,** MARTIN RESOURCE MGMT. CORP.

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**Steven T. Scalzo,** MARINE RESOURCES GROUP, INC.

**George Vakirtzis,** POLEMBROS SHIPPING LIMITED

**Ioannis Vardinoyiannis,** HELLENIC SEAWAYS MARITIME S.A.

**Jonathan C. Wales,** REINAUER TRANSPORTATION COMPANIES

**Servet Yardimci,** YARDIMCI GROUP

## Secretary

**Joseph E. M. Hughes**

As of June 1, 2012

AMERICAN STEAMSHIP OWNERS MUTUAL
PROTECTION & INDEMNITY ASSOCIATION, INC.

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