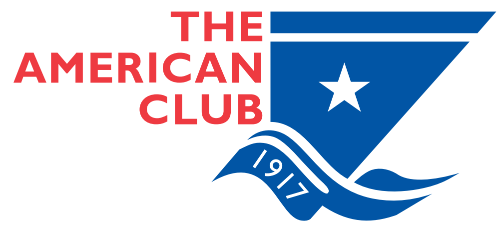


2018 Annual Report

Although the shipping and insurance sectors continued to experience headwinds in 2018, the American Club made progress in several areas. Tonnage grew respectably, but premium pricing marked time. Claims for Members' own account were the best since 2002, but exposure to other clubs' Pool claims increased substantially. Investments performed respectably, but not at the exceptional levels of the previous year. Eagle Ocean Marine continued to prosper, increasing its market share. The profitability outlook for American Hellenic Hull showed solid improvement, as market rates moved upward. Loss prevention initiatives advanced into new areas of risk mitigation. While a demanding regulatory environment continues to complicate commerce, and the business climate remains challenging, the Club looks to the future with optimism buoyed by an encouraging 2019 renewal season, and clearly focused on its mission to provide exceptional support to its Members in these difficult times.

Table of Contents

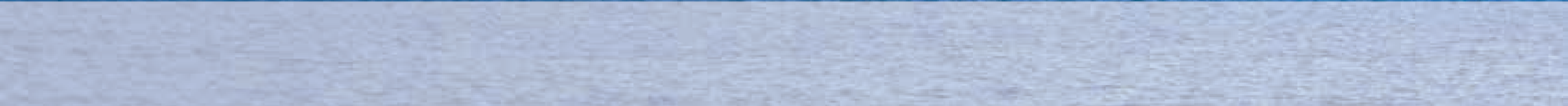
Highlights	1
Report of the Directors	3
Report of the Managers	7
Financial Statements	23

HIGHLIGHTS

Although the shipping and insurance sectors continued to experience headwinds in 2018, the American Club made progress in several areas.

2018 Highlights

- 2018 renewal sees tonnage growth: 8% for P&I and 6% for FD&D. Premium decreases slightly.
- Freight rates languish as global trade slows.
- 2015 policy year closed without call in excess of original forecast.
- Muted year-end investment returns contrast with exceptional 2017 results.
- Claims for Members' own account in 2018 best since 2002.
- Pool exposures rise substantially during second half of year.
- Eagle Ocean Marine enjoys steady expansion: 2019 renewal sees strong premium and tonnage growth.
- Standard and Poor's affirms investment grade counterparty rating.
- American Hellenic Hull foresees rising profitability as premium rates begin to rise.
- Loss prevention initiatives continue to exert positive influence on Members' exposures.
- Zero increase in premium across all classes of business for 2019; individual Club retention maintained; Pool modestly restructured; Group reinsurance costs fall once again.
- P&I tonnage up 10% at 2019 renewal, FD&D up by 8%. Premium rises by 4% and 2% respectively.
- 2019 premium rating begins encouraging upward movement.
- Decline in Club's surplus at year-end 2018 largely recouped in opening months of 2019.
- Claims emergence for 2019 develops favorably at early stage.
- Year-to-date investment return of 5.74% at end of April 2019 is conspicuous for its contrast to 2018 results.
- Positive risk profile for continuing membership encourages solid outlook for future.



REPORT OF THE DIRECTORS

The Directors of American Steamship Owners Mutual Protection and Indemnity Association, Inc. (the American Club) are pleased to present the Club's Annual Report and Accounts for the year ended December 31, 2018.

The Year in Review

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

The one-hundred-first Annual Meeting of the Club's Members took place in New York City on June 21, 2018. 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. retired as, respectively, Chairman and Deputy Chairman of the Board. Messrs. Witte and Marinakis had originally been elected to those positions in June, 2007. During their leadership of the Board, the American Club's global reach, business diversity and industry reputation grew substantially.

The Members, Directors and Managers present joined in thanking Messrs. Witte and Marinakis for their sterling contribution to the Club's success during their period of service. Moreover, in recognition of their exemplary stewardship over the years, they were accorded the honor of continuing to hold their former offices *emeritus* on a special vote of thanks of their fellow Directors.

In light of these retirements, the Directors subsequently elected Mr. George D. Gourdomichalis of Phoenix Shipping and Trading, S.A. and Mr. Robert D. Bondurant of Martin Resource Management Corporation as Chairman and Deputy Chairman respectively. Mr. Lawrence J. Bowles was re-appointed as General Counsel to the Club and Mr. Joseph E. M. Hughes, Chairman and CEO of the Managers, was re-appointed as Secretary.

In addition to the Annual Meeting, in conjunction with which a regular meeting of the Board was also held, the Directors met on three further occasions in 2018. All of these meetings took place in New York.

At each of the Board meetings, a wide range of matters was reviewed. They included policy year accounts and the closing of relevant years; the settlement of claims of the Club's Members; matters relevant to the Club's membership of the International Group of P&I Clubs, including the development of Pool claims; reinsurance; investment policy; the outcome of renewal negotiations; marketing and business development; the evolution of global regulation affecting shipping, and the implementation of other political initiatives, including those in regard to sanctions; and many other subjects pertinent to the Club's affairs. The Board also gave regular attention to the development of the Club's Eagle Ocean Marine fixed premium business as well as that of its wholly-owned subsidiary, American Hellenic Hull Insurance Company, Ltd.

The period under review saw the formal closing of the 2015 policy year, without contribution in excess of originally estimated total premium, as of March 31, 2018. The substantial surplus for the year was transferred to the Club's contingency fund.

As mentioned above, the Club's investment in American Hellenic Hull Insurance Company, Ltd., a Solvency II–accredited underwriter based in Cyprus, continued to develop in a positive direction during 2018. Despite challenging market conditions, American Hellenic Hull has exceeded most of the business development benchmarks originally projected for attainment in its early years. Indeed, the profitability outlook for American Hellenic Hull notably improved toward year-end, as market rates gained upward traction. The Report of the Managers provides further commentary on this important subject.

Circular No. 29/17 of November 17, 2017, informed Members of the Club's premium policy for 2018. It communicated the Board's decision to apply a zero general increase to premium relating to the Club's Class I (P&I) business. Continuing entries in the Club's Class II (FD&D) and Class III (charterers' insurance) portfolio were also to attract similar treatment as to rating.

For 2019, a zero general increase in premium was ordered across all classes of the Club's business in conformity with

Your Directors thank all Members for their enduring support of the American Club.

the position taken for the previous year. This was notified to Members in Circular No. 43/18 of November 15, 2018.

The average rate per ton on renewing mutual business increased by approximately 1.5% as of February 20, 2019, an encouraging sign in view of a continuingly soft market for marine insurers. More particularly, the Club's mutual P&I business saw tonnage increase by more than 1.6 million gross tons as of February 20, 2019 by comparison with the previous year, and by just under 900,000 gross tons in regard to mutual FD&D entries. Year-on-year premium growth was more subdued, with increases of 4% for P&I and 2% for FD&D entries.

The Club's fixed premium brand, Eagle Ocean Marine (EOM), also saw encouraging growth. It gained nearly 450,000 gross tons of new business over the renewal season, reflecting additional revenue of about $2.75 million. Year-on-year premium for EOM increased by 42% as of February 20, 2019, while its claims performance continued to develop favorably.

As to the Club's reinsurances, the International Group's arrangements remained broadly similar for the 2018 policy year to those which had applied in 2017, while the Club's whole-account protections – having been remarketed twelve months earlier – were also essentially the same in structure and direction as those in effect during 2017. Further details of these arrangements are described in the Report of the Managers.

In June 2018, Members were informed that the release call for 2016 (originally set at 20% of forecast total premium) would be reduced from a (then current) figure of 15% to 10% of estimated total premium in light of the improving development of claims for that year. The margins for 2017 (20%) and 2018 (20%) were to remain as originally mandated, and have continued at those levels since that time.

The Club's funds under investment generated a slight loss for 2018 by comparison with a gain in excess of 8% during the previous financial year. However, it is pleasing to note that, against a strengthening market background, the overall position has improved substantially during the opening months of 2019, the end-April investment return being 5.74% year-to-date.

As to claims, the Club's experience for 2018 indicates a sharp distinction between losses attributable to its own Members and those arising from the Club's exposure to other clubs' claims under the International Group's pooling arrangements. As to the former, aggregate losses within the Club's retention for 2018 (that is to say for individual claims up to $10 million per incident) have so far emerged as the lowest since 2002.

By contrast, claims within the International Group's Pool are developing at the highest level for several years. A trend towards rising Pool claims was identified twelve months ago but, at that stage, appeared to be a case of 2017 reverting to the mean of the previous decade. 2018, on the other hand, has the making of being a significantly more expensive year for Pool claims than earlier years.

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. Each engaged in a variety of initiatives in order, respectively, to ensure the careful monitoring of the Club's funds under investment and generally oversee the financial dimensions of its business; to examine claims trends in detail with the aim of minimizing risk; and to implement the lessons learned from those trends in the form of user-friendly loss prevention tools and other means of enhancing safety both ashore and afloat.

In that latter context, the development of safety and loss prevention initiatives continued to be an American Club focus during 2018. Its chief activities in this area comprised the surveying of vessels, pre-employment medical examinations and the dissemination of e-learning and other material for a variety of purposes more extensively described in the Managers' Report.

In closing, your Directors thank all Members for their enduring support of the American Club. Your Directors will continue to work to ensure, in close cooperation with the Club's Managers, that Members' expectations 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 2018, despite continuing headwinds in the shipping and insurance sectors. Following a period of expansion in 2017, global trade grew anemically during the year, constrained by macroeconomic and geopolitical uncertainties. The freight markets reflected these trends, but there were encouraging signs that the balance between the supply and demand for ships was improving.

Indeed, the shipping industry optimism which had characterized the second half of 2017 was sustained into the opening months of 2018. This faltered as the year developed, engendering a gloomier mood than had previously been the case in most sectors. Nevertheless, despite these systemic challenges, the American Club was able to keep pace with the expectations of its Members, and continued to advance its longer-term goals.

Entered Tonnage, Underwriting and Reinsurance

The freight market background against which the 2018 renewals were negotiated was less auspicious than it had been twelve months earlier. Concomitantly, there was no sign that soft premium conditions were about to end, and risk pricing continued to be weak. However, a largely benign claims environment provided some justification for what was becoming a secular trend of low rates, although this was to change later in the year, particularly as to the incidence of large claims mutualized within the International Group's Pool.

The American Club's Board had ordered a zero general premium increase on renewing P&I business for 2018, in conformity with the position taken twelve months earlier. However, there were to be no standard increases in deductibles as had been the case in 2017. The same position was taken in regard to continuing entries in the Club's FD&D portfolio. As in previous years, the release call for both P&I and FD&D was set at a margin of 20% over and above estimated total premium.

In the result, the 2018 renewal saw solid year-on-year growth. Tonnage was up by about 8% for P&I and about 6% for FD&D risks. There was also an encouraging rise in charterers' insurance over the period. However, overall net revenue reduced by about 2%. This was to some extent driven by lower reinsurance costs and the continuing effect of "churn".

At the 2019 renewal, the American Club's mutual P&I business saw tonnage increase by more than 1.6 million gross tons by comparison with the previous year, and by just under 900,000 gross tons in regard to mutual FD&D entries. Year-on-year premium growth was more subdued – as soft market conditions continued to prevail – with increases of 4% for P&I and 2% for FD&D entries.

However, the average rate per gross ton on renewing P&I entries was about 1.5% higher than the expiring figure, an auspicious sign for risk pricing into the future. It is also pleasing to note that Members renewing in the 2019 policy year have brought with them a trailing 5-year gross loss ratio of only 46%. This is a further improvement on that recorded twelve months ago (48%) and, indeed, on the figure of 51% which featured at the commencement of the 2017 policy year.

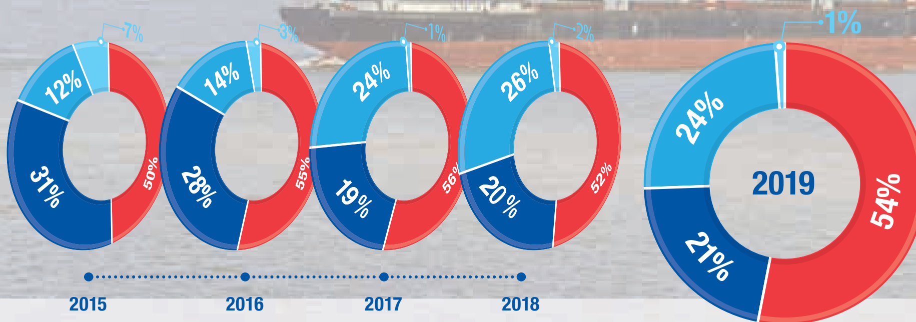
The distribution of Club membership for 2019 has changed slightly by comparison with that of twelve months earlier. Weighted by reference to tonnage and premium, 54% of the Club's portfolio comprises ship operators domiciled in Europe, the Middle East and Africa (EMEA), 24% in North America, 21% in Asia and 1% in the rest of the world. By reference to vessel type, 40% of the Club's entries for 2019 are represented by tankers and tanker-types, 35% by dry bulk carriers, 16% by general cargo, container, passenger and RoRo vessels and 9% by tugs, barges and small craft. These statistics are represented graphically on pages 9 and 11 respectively.

The American Club's reinsurance arrangements during 2018 remained largely as they had been for the previous year, 2017 having been a year where some significant changes had taken place.

For 2018, the lower Pool ceiling was raised from $45 million to $50 million, and the layer from $80 million to the market reinsurance attachment point of $100 million was absorbed into the Pool and merged with the upper Pool layer. This covered the tranche between $50 and $00 million with an individual Club retention of 7.5% across the layers. Additionally, the participation of Hydra, the International Group's segregated cell captive in Bermuda, continued during 2018 in a manner similar to that of the previous year.

MEMBERS' TONNAGE BY MANAGEMENT DOMICILE

● EMEA ● Asia ● North America ● Rest of the World



* As of March 1 in each year. Statistics weighted by reference to both tonnage and premium for 2017 through 2019, tonnage-based for earlier years.

UNDERWRITING

The Club's highly coordinated activity on the underwriting, claims, loss prevention and business development fronts was pursued energetically throughout the period under review.

For 2019, following the International Group's reinsurance broker tender process undertaken during the spring of 2018 (described below), a review of the current reinsurance structure was undertaken, and a number of recommendations were made for changes to it. These were aimed both at augmenting the sustainability of the program and at improving its cost-efficiency.

In consequence of this review, the main changes to the arrangements for 2019 relate to the adjustment of the previous year's second- and third-layer attachment points, the introduction of a new multi-year placement, and the introduction of a $100 million annual aggregate deductible (AAD) within the 80% market share in the first layer of the contract.

The first layer of the 2019 program therefore provides cover from $100 million to an increased upper limit of $750 million, the second layer establishes cover from $750 million to $1.5 billion and the third layer from $1.5 billion to $2.1 billion. There has been no change to the collective overspill layer. This continues to provide $1 billion of cover in excess of $2.1 billion.

In addition, one of the three 5% multi-year private placements ($1 billion excess of $100 million) expired on February 20, 2019. This was replaced by a new multi-year 10% private placement within the new first layer ($650 million excess of $100 million), increasing the private placement participation in the first layer from 15% for 2018 to 20% for 2019. Within the market share (80%) of the first layer, there is now a $100 million AAD which has been retained by the Group's captive, Hydra. Hydra also continues to retain 100% of the Pool layer from $30 million to $50 million, and 92.5% of the Pool layer from $50 million to $100 million, in addition to the absorption of the $100 million AAD in the 80% market share of the new first layer of the contract, as described above. A schematic of the International Group's 2019 reinsurance program is set out on page 17.

As to claims under the Maritime Labor Convention (MLC), market reinsurance cover has been renewed for 2019 with the expiring cover limit of $200 million (excess of $10 million) at a competitive cost which is included within the Group's overall reinsurance pricing. In regard to cover for war risks, the expiring excess protections were renewed for 2019, at a lower premium. This was also included in the total rates charged to Members which were again set at a lower rate per gross ton than those of the previous year.

A significant development during 2018, as alluded to above, was the launching by the International Group of a tender process for the role of broker for its reinsurance program for 2019. In the result, the entire contract – including its Hydra reinsurance elements – was awarded jointly to Miller Marine (previously the sole incumbent for the main placing) and Aon (previously involved in the Hydra reinsurances). The placements into the markets under the new intermediation arrangements were assigned in the ratio of 70:30 as between Miller Marine and Aon respectively.

The reinsurance of the American Club's net retained exposures, which followed a remarketing of the program at the 2017 renewal, remained substantially the same for 2018. The cover, which continues into the current policy year, provides reinsurance within multiple layers of the Club's retention with different aggregate attachment points, but subject to an overall annual aggregate deductible. Also for 2018, the Club's reinsurance of its exposures within the lower Pool changed slightly from those of the previous year.

Both those arrangements have remained in place for the current policy year. The combined program provides the Club

with excellent protection for its retained exposures and will continue to fortify the reliability of its forecasting of retained claims absorption in the future.

In the middle of 2018, the American Club renewed its participation in the Eagle Ocean Marine (EOM) facility which provides fixed premium insurance of P&I and FD&D risks for smaller vessels in local and regional trades, principally in East Asia, Europe, Africa and other areas outside the United States. The Club's absorption of 55% of the first $10 million tranche of exposure remained the same as it had been during the previous year, and as it continues into the current year. The EOM facility year runs from July 1 to June 30 and will therefore be subject to renewal with the Club's co-venturers in the middle of 2019. As has been the case for several years, the overall limit of cover available under the facility remains at $500 million.

The facility made excellent progress in 2018. This has been amplified by substantial growth in the early part of the current year. Over the 2019 renewal period, EOM acquired nearly 450,000 gross tons of new business, reflecting additional revenue of about $2.75 million. Indeed, year-on-year premium for EOM increased by over 40% as of February 20, 2019, while its claims performance continued to develop favorably with a cumulative combined ratio of a little over 70% since it commenced underwriting in 2011. EOM complements the Club's mutuality as it grows its footprint throughout the world. In a period of some uncertainly for the fixed premium P&I market, EOM remains committed to providing the gold standard of service in its field.

On the ratings front, Standard and Poor's reaffirmed in 2018 the American Club's BBB- investment grade financial strength rating with a stable outlook. This followed, as had been the case for several years, an extensive review of the Club's current and prospective circumstances. The process continues.

The Club's highly coordinated activity on the underwriting, claims, loss prevention and business development fronts was pursued energetically throughout the period under review, and has continued to be a major focus into 2019. This has had the practical benefit of magnifying the growth of tonnage over recent years as well as the enhancement of service delivery to Members and their intermediaries.

The Club's policy of raising its profile in a variety of media domains also continued throughout 2018. This included the strategic engagement of the Managers' personnel at industry events across the world as well as increasing the Club's participation in social media through ***LinkedIn***, ***Twitter***, ***YouTube*** and ***Instagram*** accounts. As might be expected in this modern age, the number of followers of the Club on social media has continued to grow exponentially over the recent past.

The importance of the Club's enterprise risk management (ERM) capabilities continued to be recognized during 2018. Specifically, the Managers maintained their incorporation of a formal, senior-level ERM oversight protocol into the Club's decision-making processes. The ultimate supervision of these processes remains the province of the Board, to whom the Managers make regular reports.

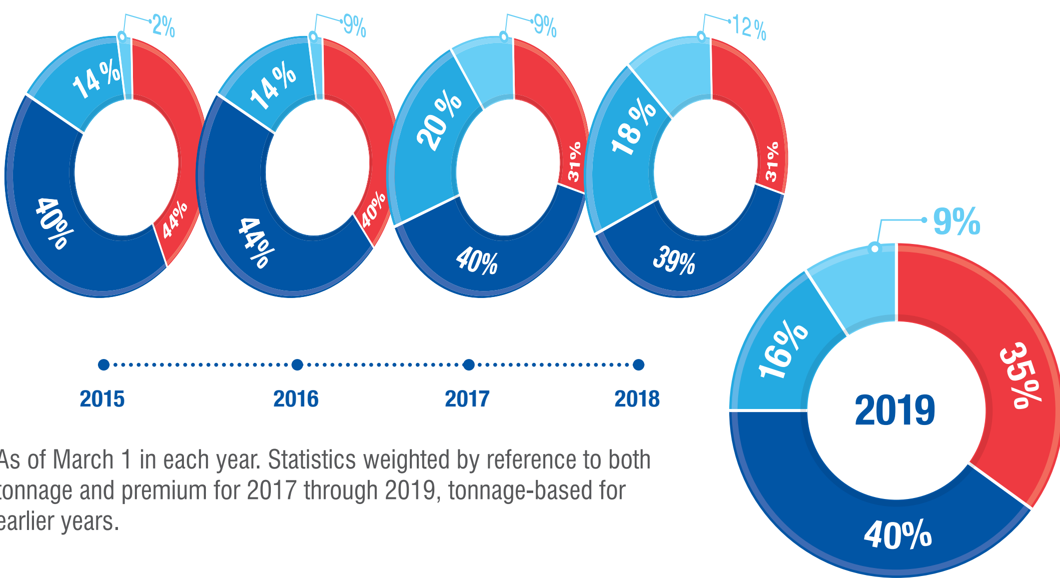
As noted last year, the necessity of an effective ERM program has acquired a renewed focus through recent initiatives in cybersecurity, including compliance with the General Data Protection Regulation (GDPR) in the European Union, and a similar regime which applies to the Club's activities under the purview of the New York regulator. Fulfilling the obligations created by these new regimes occupied considerable management time during 2018, as it continues to do in 2019.

During 2017, the Club commenced implementation of a new IT system, in the architecture of which cyber security has been given a special emphasis. As a component of the ERM function of the Club, this will continue to engage the close attention of the Managers and the Board over the months and years ahead.

It is pleasing to note that development of the new IT system continued to considerable positive effect during 2018 and into the opening months of 2019. The process remains on time, and on budget, under the supervision of the Board who receive regular reports from the management team responsible for accomplishing this important assignment.

MEMBERS' TONNAGE BY VESSEL TYPE*

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



* As of March 1 in each year. Statistics weighted by reference to both tonnage and premium for 2017 through 2019, tonnage-based for earlier years.

Supplementary and Release Calls

2018 saw the closing of the 2015 policy year, without call in excess of the original forecast, as of March 31, 2018. The surplus for the year – of nearly $12 million – was transferred on closing to the Club's contingency account.

So far as release calls on open years are concerned, Members were informed in June 2018 that the margin for the 2016 policy year would be reduced from the then current figure of 15% to 10% of estimated total premium, in light of the improving development of claims for that year. The margins for 2017 (20%) and 2018 (20%) were to remain as originally mandated, but be subject to further review in due course.

It is intended that the 2016 policy year be closed soon. At that time, release call margins for remaining open years will be reconsidered, as they will later in 2019 at the time the Club publishes its premium policy determinations for 2020.

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

In conformity with this policy, in November 2018 – being the same time at which individual open years' release call margins were notified to Members – the Club's Board explained the factors which it had taken into account in assessing the figures in question.

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

FINANCE AND INVESTMENTS

The balance of investments as between different asset classes is continuously monitored by the Board's Finance and Audit Committee in fulfillment of the mandates contained in the Board's investment guidelines.

Finance and Investments

In retrospect, 2018 proved to be a year of some ambiguity for investors, as countervailing trends in different sectors of the global economy altered the status and outlook for various asset classes as the year progressed.

2018 started well for US equities as a continuing bull market for stocks was given additional momentum by the tax reforms implemented at the end of 2017. Corporate earnings continued to grow, while record low unemployment rates, together with steadily rising average pay and mounting consumer confidence, all combined to create a favorable backdrop for risk assets.

However, in reaction to these theoretically inflationary trends, the US Federal Reserve began to tighten its previously accommodative interest rate policy, implementing four increases during the year. It also began to unwind its balance sheet, bolstered over recent years by the accumulation of assets acquired in consequence of the Fed's earlier policy of quantitative easing.

Accordingly, notwithstanding largely favorable economic conditions, US equity prices became susceptible to concerns that the Fed had adopted an over-aggressive posture on rates, compounded by worries about the state of global trade relations, particularly those between the US and China, as well as other macroeconomic and geopolitical trends. This generated episodes of volatility in the markets, most notably toward the end of 2018 when a major equities sell-off formed a troubling coda to an otherwise positive year. Indeed, the net result of these market tensions was an overall loss in 2018 of 4.4% for the S&P 500, and 6% for the Dow.

2019 has started more favorably, global stock markets in particular having largely recouped their year-end losses. In the fixed income space, sovereign debt valuations have recently been assisted by more doveish central bank intentions as to interest rates and other forms of monetary easing, notably at the Fed and the ECB. In addition, a more encouraging outlook for the Chinese economy (enhanced by the possibility of a trade deal with the US) has improved sentiment, even if longer-term prospects for global investment conditions remain muted.

The American Club experienced a small loss (being -0.06% before investment expenses) on its portfolio at year-end 2018 largely as a result of the precipitate stock market sell-off toward the end of December to which reference is made above. However, this outcome was better than the blended benchmark figure of -1.59% for the mix of securities in question.

Happily, most of the losses in the equities space have been recovered over intervening months and, as at end-April 2019, the Club had recorded a return of 5.74% on its invested funds which remain, as they were during 2018, committed to cash and fixed income, and equities and alternatives, in a ratio of about 70:30 respectively.

This balance of investments as between different asset classes is continuously monitored by the Board's Finance and Audit Committee in fulfillment of the mandates contained in the Board's investment guidelines. These also inform, as to implementation of day-to-day investment decisions, the activity of the Club's advisors, Bank of America Merrill Lynch, who continued during the period under review to provide regular reports and analysis to both the Committee and the Board.

CLAIMS

In 2018, the emergence of claims for the Club's own account recorded its best result in sixteen years.

Claims

The American Club's claims experience during 2018 was characterized by two very distinct, but opposing, trends.

In 2018, the emergence of claims for the Club's own account – i.e. those falling within its own retention below the Pool threshold of $10 million – recorded its best result in sixteen years. The $24 million in retained losses for 2018 aggregated at policy year-end was the lowest since 2002. Of this figure, 98% of all claims by number fell within the attritional layer of $250,000 per incident. Only twenty-two claims were reserved in excess of $250,000 by way of total incurred exposure, and ten were reserved at a figure in excess of $500,000. The excellent results for 2018 have followed the positive trajectory which began in 2015 and has maintained a favorable direction into the early stages of 2019.

By contrast, claims on the International Group Pool for 2018 tell a very different story. Although the American Club has not itself brought any claims on the Pool, a total of twenty-two claims brought by other clubs have created circumstances where, at policy year-end 2018, the Club's exposure to the Pool for that year is the highest (at $5.9 million) since 2013 ($8.0 million) at the same point of emergence. Whether 2018 proves to be the new normal or whether – as is often the case with Pool claims development – it proves to be an outlier in contrast to the generally more benign secular trend of recent years, remains to be seen.

As to particular types of claims, 2018 saw an increase in the frequency and severity of claims arising under the International Group's absorption of exposure for abandonment of crew under the Maritime Labor Convention (MLC) of 2006. In response to these challenges, the Managers implemented measures for handling MLC claims – which were becoming more complex and expensive, given the demands of local port authorities in regard to abandoned vessels – in order to protect the collective interests of the Club's membership.

Internationally, the incidence of bulk cargo claims arising in Vietnam also rose significantly for all Group clubs during the course of 2018. These involved allegations of shortages by local receivers (sometimes based on initial draft surveys even before discharging had begun) at various Vietnamese ports. Vessels faced arrest during discharge in questionable circumstances, only cash security being accepted by receivers. This led to unacceptable circumstances in several cases where owners were effectively being held hostage and forced to settle while under arrest.

As mentioned earlier in the Managers Report, EU legislation mandating penalties for data breaches – its General Data Protection Regulation (GDPR) – took effect in May 2018. The Club issued a circular, in conjunction with other Group clubs, advising Members of the legislation. The new rules pertain mainly to claims involving crew, passengers and third parties and limit the amount of personal information to be circulated. They also imply a greater use of existing technology to transfer and store data more securely, and require the anonymization of data so as to provide crew – and their shipowner employers – with appropriate protection of their personal information.

The application of sanctions against both sovereign states and designated individuals continued to affect Club business during 2018. Following the withdrawal of the United States, in May 2018, from the Joint Comprehensive Plan of Action (JCPOA) with Iran, the breadth and reach of sanctions against that country were ramped up substantially. The American Club issued a variety of circulars on the subject to keep its Members fully abreast of developments and, more particularly, to ensure that the extent and implications of relevant embargoes – and their effect on Club cover – were kept at the forefront of Members' own compliance initiatives.

The European Union (EU), in an effort to preserve the nuclear accord and counteract US secondary sanctions, introduced a blocking regulation allowing any EU member state or EU person suffering detriment, in consequence of another EU person complying with external sanctions, a right of recovery for damages. In consequence of this, and generally, the

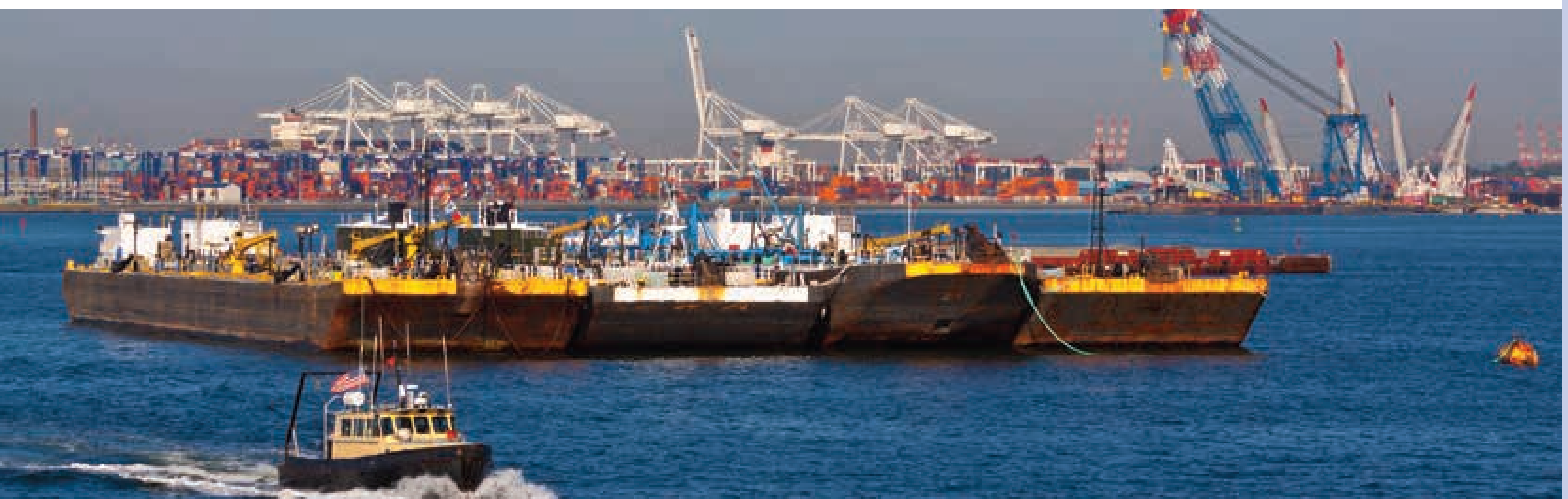
International Group of P&I Clubs continued its dialog with both the US Department of State and the US Treasury Department's Office of Foreign Assets Control (OFAC), in addition to their counterparties within the EU. Again, the American Club provided a commentary on these developments, not only in regard to exposure to more routine P&I losses but also as to the recoverability of Pool claims.

The impending implementation – as of January 1, 2020 – of international regulations limiting the sulfur content of marine fuels generated extensive commentary during 2018. This has continued into the current year. Concerns about fuel quality generally were further exacerbated by a rash of off-specification bunker issues, particularly those arising in the US Gulf and later spreading into the Caribbean and East Asia, notably Singapore.

What was originally described as the "Houston problem" became a larger worry within the shipping industry, foreshadowing to some extent misgivings as to the practical effects of the changeover to low-sulfur fuels with effect from January, 2020. The American Club continued to provide assistance to its Members in this and related respects throughout the year. In 2019 it is intended that a full compendium of advice – both practical and in relation to the legal issues raised by the use of low-sulfur fuels – be issued to provide further assistance to Members in this important area.

The American Club was pleased to organize and chair the Freight, Demurrage and Defense (FD&D) Insurers' Industry Forum in New York in July, 2018. The Forum provides a platform for FD&D insurers to discuss important issues concerning that class of insurance. It is also intended to act as a collective voice for those specializing in this cover, which provides reimbursement of legal costs for a wide range of maritime disputes.

The 2018 Forum was well attended by managers of virtually all the Group clubs, as well as by non-Group FD&D insurers. Representatives of the London Maritime Arbitrators Association (LMAA) and the Society of Maritime Arbitrators' (SMA) of New York were also present and participated in what proved to be a very lively discussion of relevant issues.



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 2018. As has been the case for several years, the Group's agenda continued to expand over the period under review, the diversity of the issues to which the Group gave its collective attention continuing to develop in parallel with the various challenges faced by the shipping industry it serves.

Several of the issues described in last year's Annual Report remained within the purview of Group clubs during 2018. The implications of Brexit remained a source of discussion not only for clubs domiciled in the United Kingdom but also in relation to the London insurance market generally. The application of sanctions in regard to certain countries, notably Iran and North Korea, continued to exercise the attention of the International Group, particularly following the withdrawal of the United States from the JCPOA in May, 2018, as described in the report on claims above.

The Group also concerned itself with developments in the new technologies which are increasingly coming to bear on the operation of ships, notably those in relation to autonomous vessels and those relevant to potential cyber threats to merchant shipping. Cyber-related liabilities remain covered by the clubs and their reinsurers unless such liabilities result from acts of war or terrorism, but any market repositioning in regard to cyber issues is kept under review in order to ensure consistency and continuity of cover.

The International Group maintained an active dialog with a variety of international institutions, regulators and industry associations during the year on matters relating, inter alia, to the coverage of Maritime Labor Convention (MLC) liabilities and the Cargo Incident Notification System (CINS), a shipping line initiative aimed at reducing the number of cargo incidents on board ships and highlighting the risks associated with the coverage of certain cargoes. Incipient discussion was also undertaken toward the end of 2018 with the Union of Greek Shipowners (UGS) and others on the implications of the IMO's low-sulfur fuel requirements taking effect on January 1, 2020.

Circulars in regard to these subjects were issued by all clubs from time to time during 2018, and developments in each of them continue to be monitored in the current year both for now and for the future.

Within the International Group itself, the 2017 Group stakeholder research project continued to gain momentum during 2018. The project had sounded out the views of a very wide range of stakeholders on the strengths and benefits of the Group system, as well as the weakness of, and areas for improvement in, the present arrangements.

The conclusions and recommendations of the research project were originally considered at a Group strategy meeting held in Oslo in June 2017, following which a number of dedicated working groups comprised of senior club managers were established to follow-up on the project recommendations.

These included a governance working group, whose mandate was to review the internal decision-making processes within the Group, as well as its sub-committee and working group structures, and a brand and communications working group (on which the American Club was represented) to focus on raising the Group profile and improving outreach and information supply. A further working group was established to consider means of improving the operation of the International Group Agreement (IGA) and, by reference to the Pooling Agreement, refining the manner in which risks should be considered poolable.

Considerable progress has made in these sectors over recent months, although further work remains to complete the development of best practice in each of the areas under review.

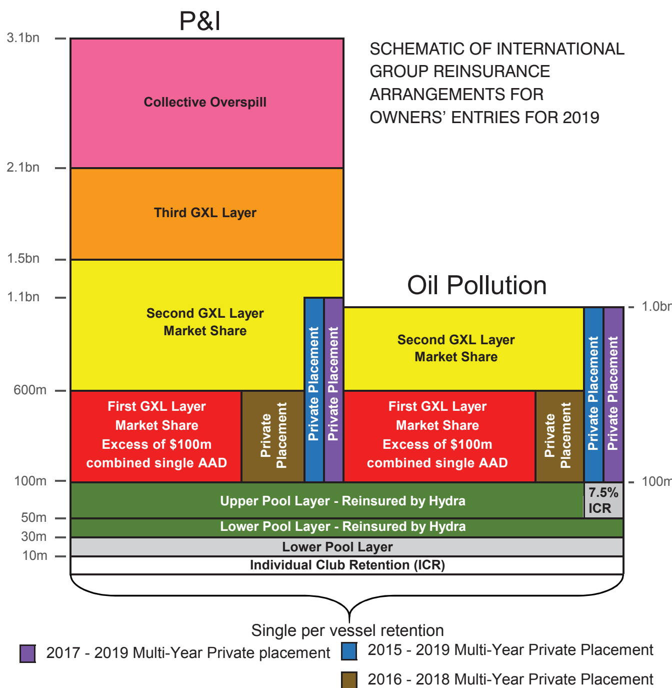
INTERNATIONAL GROUP

Looking to the future, continuing Group engagement is likely in several emerging areas, notably the development of autonomous shipping and cyber risks.

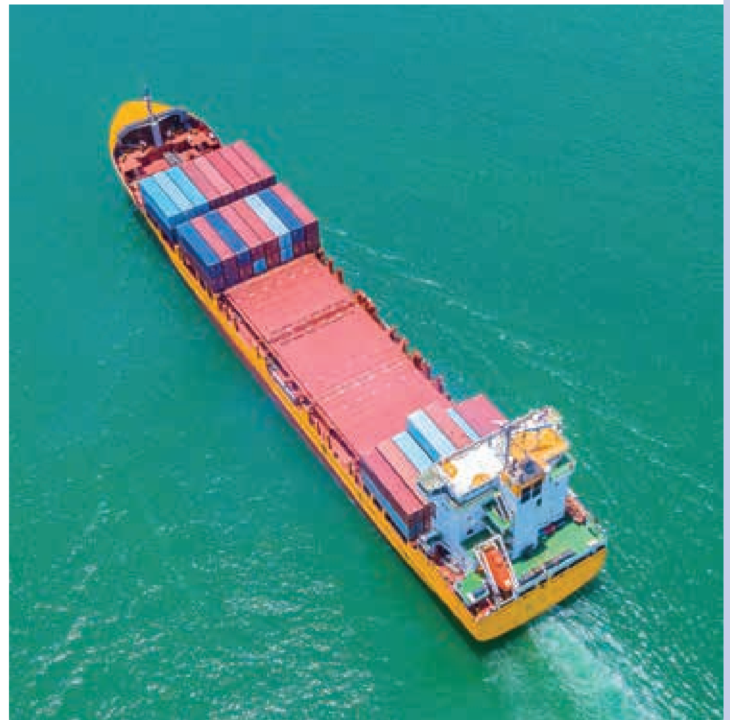
In 2010, the International Group established a P&I Qualification program to deliver unique training to club employees in all aspects of this specialist area of marine insurance. The program provides high quality, targeted training and has become acknowledged in its own right within the P&I industry, and in the wider insurance market, as a unique and challenging standalone professional qualification. The forward momentum of the program continued strongly into 2018, consideration now being given to opening up the qualification still further to allow access for all to study and sit the examinations.

Looking to the future, and bearing in mind how rapidly its agenda develops, continuing Group engagement is likely in several emerging areas, notably the development of autonomous shipping and cyber risks in particular. The increasing use of electronic trading platforms, particularly those enabled by block chain technology, is also gaining importance within the world of commerce and trade and, by extension, will attract the growing attention of the Group.

In that connection, while the Group supports innovation that facilitates trade, it is nonetheless obliged to safeguard shipowners' P&I cover and ensure that they are not prejudiced or compromised by such systems. Accordingly, the implications of new designs of cargo-related transactions remain under review by a small expert working group to examine the legal and insurance-related ramifications arising from the use of new technologies of this kind.



SCHEMATIC OF INTERNATIONAL GROUP REINSURANCE ARRANGEMENTS FOR OWNERS' ENTRIES FOR 2019



Safety and Loss Prevention

The initiatives taken in recent years to enhance the American Club's safety and loss prevention capabilities continued with undiminished vigor during 2018. As in previous years, the Club's loss prevention program embraced a diverse range of initiatives in a variety of spheres, seeking to respond to a risk landscape undergoing continuous change.

On the vessel inspection front, in furtherance of the vital objective that vessels insured by the American Club meet appropriately high standards of maintenance and operation, 116 condition surveys were performed on vessels entered for owners' risks, a 5% reduction on the figure for 2017. This reduction was primarily the result of a decline in the average age of vessels entered in the Club, together with the streamlining of procedures in regard to the provision of evidence of corrective action for defects identified at the first examination of a vessel.

This has had the effect of reducing the number of follow-up surveys and, concomitantly, in controlling costs for Members. It is pleasing to report that the Club's efforts in this regard have also had a positive effect on its global port state inspection and detention rate. This continued its steady decline of recent years resulting in a 4.2% figure by year-end 2018.

Another pillar of the Club's loss prevention architecture has been its Pre-Employment Medical Examination (PEME) program which celebrated its fifteenth year of service to Members in 2018. The PEME program benefits from the strong support of Members at large, and has proved to be of significant value in controlling illness and death claims over recent years.

Three clinics were added to the Club's network during 2018, in Angola, Bangalore and Piraeus respectively. The most significant development in regard to the PEME program for 2018 was a removal of a previously implemented psychology test requirement. However, this was done in the context of a more far-reaching objective for the Club in developing effective tools to address mental health and wellness by further expanding its awareness and training efforts.

Accordingly, on October 10, 2018 --- being World Mental Health Day – the Club announced the release of ***Caring for Seafarers' Mental Wellbeing***, a document published by the Club in cooperation with the Seamen's Church Institute (SCI), a renowned, US-based ministry to seafarers. ***Caring for Seafarers' Mental Wellbeing*** provides guidance on responding to both the routine and extreme stress which affect the quality of life of mariners both ashore and afloat, and seeks to promote awareness generally of the importance of seafarer psychological well-being.

The Club also sponsored and facilitated its first applied suicide intervention skills training (ASIST) interactive workshop during 2018. This was designed to aid the recognition of circumstances where a seafarer might be in a suicidal frame of mind, and to help those around him or her to react accordingly. In addition, and in augmentation of ***Caring for Seafarers' Mental Wellbeing***, the Club also established an up-to-date list of global mental health resources to seafarers intended to provide access to mental health systems as and when it might be required.

The steady development of loss prevention training tools continued during 2018. Much of this was done in conjunction with IDESS IT in the production of e-learning based training material on a wide range of subjects. 2018 saw the release of the latest e-learning module, ***Ship-to-Ship Transfer***, a well-received initiative given the significant number of owners typically involved in complex operations of this kind.

2019 will see the issuing by the Club of comprehensive guidance on the challenges to shipowners created by the implementation of the IMO's sulfur cap on marine fuels which comes into effect on January 1, 2020. A compendium on the subject, to be released in June or July, will provide commentary on the broadest range of issues, from discussion of technical requirements to assistance in regard to the contractual implications of this important new regulatory regime.

SAFETY & LOSS PREVENTION

The initiatives taken in recent years to enhance the American Club's safety and loss prevention capabilities continued with undiminished vigor during 2018.

The Club's commitment to in-house and other forms of customized loss prevention and claims awareness training continued energetically during 2018. Training sessions of various kinds were held across North America, Europe, Greater China, Southeast Asia and North Africa during the period.

In a manner ancillary to that concerning the inspection of the physical condition of vessels entered in the Club, five risk management evaluation audits were conducted in cooperation with Members during 2018. These are intended as a joint effort between Members and the Club's Managers to identify and assess operational risks, and to provide guidance and recommendations to Members to improve their safety and environmental protection compliance, and to reduce their vulnerability to accidents and loss.

The Club also continued to disseminate information to Members by means of Circulars, Member Alerts and its tri-annual publication, ***Currents***. As has been the case for many years, this publication not only supplies information of value both in relation to the physical and the legal aspects of loss prevention, but also provides updates on the affairs of the Club and its Managers, their interface with Members, and tracks the public occasions at which the American Club and its significant capabilities are showcased around the world.

AMERICAN HELLENIC HULL

American Hellenic Hull continues to apply a high level of selectivity in regard to both the renewal of existing insurances and the acquisition of new business.

American Hellenic Hull Insurance Company, Ltd.

In a transaction negotiated during 2015, and accomplished as to its final details in June 2016, the American Club made a significant investment in the establishment of a new company in Cyprus, American Hellenic Hull Insurance Company, Ltd., in order to develop a presence in the hull and machinery market, an area highly germane to the Club's activity in the P&I sector.

Complying with the rigorous financial and operational imperatives of the European Union's Solvency II regime, American Hellenic Hull has achieved excellent progress since it commenced operations as of July 1, 2016. It now boasts a substantial, and growing, portfolio of first-class international fleets.

Many advantages have flowed to the American Club in consequence of its investment in American Hellenic Hull. The transaction has enabled the Club to become involved in the hull sector in a cost-effective manner which exploits existing corporate structures and market platforms. Moreover, the Club has benefited from the cross-selling opportunities with the P&I business which have arisen from its involvement with an internationally respected insurer of hull risks.

As to the intrinsic performance of American Hellenic Hull during 2018, its penetration of the international markets continued energetically over the period. About 2,300 vessels were on risk as at year-end 2018, an increase of approximately 15% compared to the figure at the end of the previous year. Gross written premium for 2018 – of just over $11 million – was up approximately 10% by comparison with 2017.

American Hellenic Hull continues to apply a high level of selectivity in regard to both the renewal of existing insurances and the acquisition of new business. This has resulted in a trend toward growing profitability for the portfolio, buoyed by an average increase of just over 5% on renewing business in 2018. Moreover, further rate rises achieved in the early stages of the current year indicate a continuingly favorable momentum toward more sensible levels of premium within the sector.

Although American Hellenic Hull recorded a small loss of about $1.8 million for the 2018 financial year, this was a significant improvement on the previous year. Additionally, the hardening of the hull markets, to which reference is made above, promises sustainable profitability for American Hellenic Hull by year-end 2019, amplified into 2020 by enhanced pricing power as capacity continues to retreat from the market. This will be assisted by American Hellenic Hull's focus on underwriting high-quality fleets navigating under superior flags and managed by the most reputable operators in well-established maritime domiciles.

In its own right – and in support of its investor, the American Club – American Hellenic Hull looks to a bright future, energized by both its own prospects and the business synergies between itself and the Club. As noted last year, the combined networks of the Club and American Hellenic Hull are exceptionally broad, and it is certain that the common cause to which both are committed will continue to provide benefits to each over the months and years ahead.

The premium pricing, claims and investment trends of the past twelve months suggest that the P&I world may be in a transitional phase.

Building on the Past, Welcoming the Future

These words were first used abut ten years ago to characterize the American Club's attitude to its mission of service to the global maritime community. They remain as relevant now to the post-centennial Club as they did during the period when the Club was approaching its one-hundredth anniversary which it celebrated two years ago.

The premium pricing, claims and investment trends of the past twelve months suggest that the P&I world may be in a transitional phase between an era of comparatively low claims, soft rates and reliable investment returns and an impending period likely to feature increasing pressure on the largely favorable business climate hitherto engendered by those benign realities of the past few years.

Challenges to insurer profitability have been evident in the hull insurance markets for some time, but the recent past has seen a hardening of premium rates by some underwriters, and it may be that a sustainable upward momentum in the pricing of risk is returning to that sector and, along with it, a more favorable outlook for marine insurers generally.

The mutual P&I sector has different dynamics, but it is not immune to the secular trends of the industry as a whole. Most particularly, although the American Club has proved to be something of an outlier over the past two years in its experience of claims for its own account – having in 2018 enjoyed an exceptionally favorable year of retained losses – it is nonetheless susceptible to the claims of its co-venturers within the International Group under the collective pooling arrangements which have recently developed in a diametrically opposite direction. In addition, the Club is also affected by global trends in other areas, notably in the investment markets, and, while it has tended generally to outperform its peers in this area, the insipid rates of return for 2018 were nonetheless disappointing.

However, it is encouraging to see that, so far, 2019 has developed well for the American Club in several areas. Claims for the year to date are even lower than they were twelve months earlier, and annualized premium rates are rising modestly. Moreover, as previously mentioned, investment earnings over recent months have proved to be the mirror image of those which were impacted by the tribulations affecting the markets during the closing weeks of 2018.

Wherever these trends may ultimately lead, and as a perennial fixed point in a changing landscape, the American Club remains dedicated to the principles which underlie its mission as it builds on the past and welcomes the future. These principles are contained in the statement set out on page 42.

They remain as relevant now, as the Club continues its journey into its second century of service, as they have always done in the past.

In closing, the Managers thank all Members, the Board which so ably represents their interests, together with the broking community, Club correspondents and all their many other vendors and friends for their support in enabling the Club to achieve another year of successful operation.

2018 FINANCIAL REPORT

Contents

Independent Auditors Report	24
Consolidated Balance Sheets	25
Consolidated Statements of Operations and Comprehensive Income	26
Consolidated Statements of Changes in Members' Equity	26
Consolidated Statements of Cash Flows	27
Notes to Consolidated Financial Statements	28–37
Unaudited Supplemental Schedules	38–41

MAZARS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the American Steamship Owners Mutual Protection and Indemnity Association, Inc. and its subsidiary (the "Association"), which comprise the consolidated balance sheet as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the financial position of the Association as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplemental Schedules
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules listed in the table of contents on pages 38-41 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 audit of the consolidated financial statements and, accordingly it is inappropriate to and we do not express an opinion on the supplemental schedules referred to above.

Mazars USA LLP

June 14, 2019

Mazars USA LLP
501 Office Center Drive, Suite 300 – Fort Washington, Pennsylvania – 19034
Tel: 215.259.1000 – Fax: 215.259.1010 – www.mazarsusa.com

Mazars USA LLP is an independent member firm of Mazars Group.

Consolidated Balance Sheets

IN THOUSANDS	NOTE	DECEMBER 31 2018	2017
ASSETS			
Investments	3	**$ 173,512**	**$ 194,242**
Cash and cash equivalents		**17,483**	**26,393**
Members' balances receivable		**25,298**	**14,422**
Reinsurance recoverable	6	**51,111**	**50,342**
Advances to Hellenic Hull Mutual	2	**7,575**	**7,575**
Unbilled assessments	7	**15,567**	**14,797**
Other assets	4	**17,514**	**14,457**
Total Assets		**$ 308,060**	**$ 322,228**
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES:			
Unpaid losses and allocated loss adjustment expenses	6	**$ 150,174**	**$ 149,114**
Unreported losses	6	**42,515**	**44,379**
Unearned premiums		**21,345**	**20,062**
Reinsurance payable		**7,049**	**4,924**
Surplus note payable	5	**19,500**	**19,500**
Demand promissory note payable	5	**10,035**	**20,051**
Other liabilities	4	**12,217**	**6,584**
Total Liabilities		**$ 262,835**	**$ 264,614**
COMMITMENTS AND CONTINGENCIES			
MEMBERS' EQUITY:			
Retained earnings		**$ 48,608**	**$ 54,086**
Accumulated other comprehensive income		**(3,383)**	**3,528**
Total Members' Equity		**$ 45,225**	**$ 57,614**
Total Liabilities and Members' Equity		**$ 308,060**	**$ 322,228**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations and Comprehensive Income

IN THOUSANDS	NOTE	DECEMBER 31 2018	2017
INCOME			
Net premiums and assessments earned	7	$ 73,405	$ 74,195
Net investment income		4,081	4,586
Net realized investment gains		2,302	3,463
Net recovery from US Oil Spill Liability Trust Fund		—	—
Total Income		79,788	82,244
EXPENSES			
Losses and loss adjustment expenses incurred	6	45,905	36,302
Other operating expenses	8	39,805	40,300
Total Expenses		85,710	76,602
Income (Loss) Before Income Taxes		(5,922)	5,642
Income tax provision		444	29
Net Income (Loss)		(5,478)	5,671
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES			
Unrealized gains (losses) on investments		(4,609)	3,988
Reclassification adjustments for net realized capital gains		(2,302)	(3,463)
Other Comprehensive Gain (Loss)		(6,911)	525
Comprehensive Income (Loss)		$ (12,389)	$ 6,196

Consolidated Statements of Changes in Members' Equity

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2017		$ 48,415	$ 3,003	$ 51,418
Net income		5,671	—	5,671
Unrealized investment gains		—	525	525
Balance, December 31, 2017		54,086	3,528	57,614
Net loss		(5,478)	—	(5,478)
Unrealized investment losses		—	(6,911)	(6,911)
Balance, December 31, 2018		$ 48,608	$ (3,383)	$ 45,225

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

IN THOUSANDS	DECEMBER 31 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (5,478)	$ 5,671
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Amortization of bond premiums	1,490	1,953
Net realized investment gains	(2,302)	(3,463)
Depreciation	41	47
	(771)	(1,463)
Changes in operating assets and liabilities:		
Members' balances receivable	(10,876)	7,441
Reinsurance recoverable	(769)	3,818
Unbilled assessments	(770)	(1,734)
Other assets	(2,389)	(666)
Unpaid and unreported losses and allocated loss adjustment expenses	(803)	(28,722)
Unearned premiums	1,283	2,100
Reinsurance payable	2,125	1,738
Other liabilities	5,617	2,420
	(6,582)	(13,605)
Net cash used in operating activities	(12,831)	(9,397)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales/maturities of investments	81,574	106,093
Purchases of investments	(66,943)	(89,911)
Loan to Hellenic Hull Mutual	—	(275)
Purchases of fixed assets	(710)	(62)
Net cash provided by investment activities	13,921	15,845
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayment) proceeds of demand promissory note	(10,000)	3,500
Net cash (used in) provided by financing activities	(10,000)	3,500
Net change in cash and cash equivalents	(8,910)	9,948
Cash and cash equivalents, beginning of year	26,393	16,445
Cash and cash equivalents, end of year	$ 17,483	$ 26,393
Supplemental Information:		
Income taxes paid	$ —	$ 105
Interest paid	$ 554	$ 367

See Notes to Consolidated Financial Statements.

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 (“P&I”) insurance to maritime organizations. Pursuant to the terms of the agreements between the Association and its Member-insureds, the Members are charged premiums and subsequent assessments in amounts adequate to cover the Association’s net operating expenses which are its total operating expenses, including net losses, less amounts earned by the Association from investment activities.

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

Members are charged premiums based on the tonnage of their insured vessels. For the 2018 and 2017 policy years, at December 31, 2018 and December 31, 2017, the gross tonnage insured was 20,737,575 and 16,626,954, 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.

During 2015, the Association established two wholly-owned subsidiaries, AHHIC, Inc., a U.S. domiciled holding company, and American Hellenic Hull Insurance Company, Ltd. (AHHIC, Ltd.), a Cyprus based insurer. During 2016, AHHIC, Ltd. obtained its license to operate and began writing business on July 1, 2016. The business written by Hellenic Hull Mutual, an unrelated insurer based in Cyprus, novated to AHHIC, Ltd. on a pro-rata basis on July 1, 2016.

In connection with the establishment of these two subsidiaries, AHHIC, Inc. advanced funds to Hellenic Hull Mutual so they could continue to fund operations while AHHIC Ltd. obtained its license to operate. As of December 31, 2016, the outstanding advances due to AHHIC, Inc. was $11.2 million, of which $7.3 million was collateralized by Hellenic Hull Mutual’s existing premium receivables and assessments. The remaining $3.9 million was unsecured. This $11.2 million advance was payable in full by December 31, 2017. On December 22, 2017, the Association instructed AHHIC, Inc., through their managers SCB, to extend the repayment date to September 30, 2018. They also instructed AHHIC, Inc. to capitalize the $3.9 million unsecured additional funding. The outstanding amount as of December 31, 2017 was $7.6 million.

On September 13, 2018, the Association instructed AHHIC, Inc., through SCB, to extend the repayment date to December 31, 2019. The outstanding amount as of December 31, 2018 is $7.6 million.

On July 1, 2011, the Association began writing fixed premium protection and indemnity policies. The facility is managed by Eagle Ocean Agencies, Inc. (“EOA”) using the trading name of Eagle Ocean Marine (“EOM”), under a management contract with SCB. EOA provides administrative, underwriting, accounting and claims processing services on a commission basis.

EOM provides an insurance option for operators of smaller vessels who prefer fixed premium limited cover rather than a mutual product with full International Group Pooling limits. The cover is available to operators worldwide, excluding operators based in the United States or trading exclusively in U.S. waters.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation: The consolidated financial statements include the financial statements of the Association and its wholly-owned subsidiaries Hydra (segregated cell), AHHIC Inc. and AHHIC Ltd. All significant intercompany accounts and transactions have been eliminated.

Reclassification: Certain prior period amounts have been reclassified to conform to current period classification.

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

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

A review of investments is performed as of each balance sheet date with respect to investments where the market value is below cost. For fixed maturity securities in an unrealized loss position, an other-than-temporary impairment (“OTTI”) is recognized in earnings when it is anticipated that the amortized cost will not be recovered. When either: (i) the Company has the intent to sell the security; or (ii) it is more likely than not that the Company will be required to sell the security before recovery, the OTTI recognized in earnings is the entire difference between the security’s amortized cost and estimated fair value. If neither of these conditions exist, the

difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings ("credit loss"). If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of OTTI related to other-than-credit factors ("noncredit loss") is recorded in OCI.

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

Valuation Techniques

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

U.S. government and government sponsored enterprises - Comprised primarily of bonds issued by the U.S. Treasury. These securities are generally priced by independent pricing services. The independent pricing services may use actual transaction prices for securities that have been actively traded.

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

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

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

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

Members' Balances Receivable and Charge Off – Members' balance receivables are recorded and billed when the insurance coverage is bound. The Association reviews its allowance for doubtful accounts four times a year. Past-due balances over 90 days are reviewed individually for collectability. Once all means of collection have been exhausted and the potential for recovery is considered remote, account balances, net of brokerage, are first offset against outstanding approved claims payments that were being held in accordance with the Association's rules. Any remaining amount is then charged off against the allowance. Unsecured claims reserves are also reduced to zero as the insurance contract is terminated in accordance with the Association's rules.

Fixed Assets - Computer equipment, furniture and fixtures, software, leasehold improvements and associated design, programming and installation costs have been capitalized and are being depreciated using the straight-line method over their estimated useful lives of three to ten years.

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

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

The Association records, as an asset, its best estimate of reinsurance recoverable on paid and unpaid losses, including amounts relating to unreported losses, on a basis consistent with the reserves for losses and in accordance with the terms of its reinsurance contracts. The Association reduces such reinsurance recoverable 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.

Risk and Uncertainties – Financial instruments, which potentially subject the Association to concentrations of credit risk, consist principally of periodic temporary investment of excess cash. The company places its temporary excess cash investments in high quality short-term investments through several high credit quality financial institutions. At times, such investments may be in excess of Federal Deposit Insurance Corporation (“FDIC”) insurance limits.

Premiums and Assessments Written - The statements of operations include those premiums which have been billed in the respective year, together with estimates of unbilled assessments, representing an estimate of those assessments expected to be billed.

For the fixed premium facility for non-members, 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.

Certain acquisition costs related to commissions payable to brokers for gross premium written related to periods after the reporting date are recorded as deferred acquisition costs and are amortized to the statement of operations over time.

For the years ended December 31, 2018 and 2017, no Member accounted for 10% or more of total revenue.

Income Taxes -The Association is exempt from income taxes except for Federal and New York State taxes on taxable interest and dividends received. The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to net investment income primarily due to tax-exempt interest income included in investment income. Deferred income tax relating to accrued taxable interest and dividends is recorded. The Company has no uncertain tax positions.

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

3. Investments

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in securities classified as available-for-sale at December 31, 2018 and 2017 were as follows:

	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2018				
US Treasury and obligations of other US government corporations and agencies	$ 16,612	$ 50	$ 105	$ 16,557
Obligations of states and political subdivisions	66,953	296	549	$ 66,700
Industrial and miscellaneous bonds	4,579	—	58	$ 4,521
Common stocks	75,573	5,734	3,673	$ 77,634
Other invested assets	9,308	354	1,562	$ 8,100
Total	**$ 173,025**	**$ 6,434**	**$ 5,947**	**$ 173,512**

	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2017				
US Treasury and obligations of other US government corporations and agencies	$ 9,906	$ 2	$ 74	$ 9,834
Obligations of states and political subdivisions	84,318	481	482	84,317
Industrial and miscellaneous bonds	7,540	3	27	7,516
Common stocks	76,912	10,542	1,426	86,028
Other invested assets	8,168	116	1,737	6,547
Total	**$ 186,844**	**$ 11,144**	**$ 3,746**	**$ 194,242**

The following summarizes unrealized investment losses by class of investment at December 31, 2018 and 2017. The Association considers these investments to be only temporarily impaired.

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2018						
Government obligations	$ 4,508	$ 20	$ 5,312	$ 85	$ 9,820	$ 105
Obligations of states and political subdivisions	7,474	25	32,154	524	39,628	549
Industrial and miscellaneous bonds	2,070	32	1,963	26	4,033	58
Common stocks	23,321	1,735	23,722	1,938	47,043	3,673
Other invested assets	60	180	5,743	1,382	5,803	1,562
Total	**$ 37,433**	**$ 1,992**	**$ 68,894**	**$ 3,955**	**$ 106,327**	**$ 5,947**

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2017						
Government obligations	$ 4,393	$ 13	$ 3,460	$ 61	$ 7,853	$ 74
Obligations of states and political subdivisions	40,103	305	9,168	176	49,271	481
Industrial and miscellaneous bonds	2,004	14	815	13	2,819	27
Common stocks	8,101	180	18,133	1,246	26,234	1,426
Other invested assets	3,653	462	1,735	1,276	5,388	1,738
Total	**$ 58,254**	**$ 974**	**$ 33,311**	**$ 2,772**	**$ 91,565**	**$ 3,746**

The fair value and amortized cost of available-for-sale debt securities at December 31, 2018 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	$ 17,784	$ 17,820
Due after one year through five years	31,287	31,062
Due after five years through ten years	30,310	30,132
Due after ten years	8,763	8,764
Total	**$ 88,144**	**$ 87,778**

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

		2018		2017
Proceeds from sales of investments	$	60,972	$	89,890
Gross realized gains		3,520		4,936
Gross realized losses		1,218		1,473

There were no other-than-temporary impairments recorded in 2018 or 2017.

At December 31, 2018 and 2017, United States Government Treasury notes in the amount of $310 par value, respectively, were deposited with regulatory authorities as required by The New York Insurance Law.

Fair Value Hierarchy

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

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

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Association has the ability to access (examples include publicly traded common stocks and certain 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.

As a result of the Association's adoption of ASU 2015-07, the below tables exclude other invested assets valued at NAV. 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, 2018 and 2017:

			FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2018					
		TOTAL FAIR VALUE		LEVEL 1		LEVEL 2		LEVEL 3
ASSETS								
US Treasury and obligations of other US government corporations and agencies	$	16,557	$	16,557	$	—	$	—
Obligations of states and political subdivisions		66,700		—		66,700		—
Industrial and miscellaneous bonds		4,521		—		4,521		—
Common stocks		77,634		77,614		—		20
Total	**$**	**165,412**	**$**	**94,171**	**$**	**71,221**	**$**	**20**

	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2017			
	TOTAL FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
ASSETS				
US Treasury and obligations of other US government corporations and agencies	$ 9,834	$ 9,834	$ —	$ —
Obligations of states and political subdivisions	84,317	—	84,317	—
Industrial and miscellaneous bonds	7,516	—	7,516	—
Common stocks	86,028	86,008	—	20
Total	**$ 187,695**	**$ 95,842**	**$ 91,833**	**$ 20**

During the years ended December 31, 2018 and 2017, there were no transfers into (out of) Levels 1, 2 or 3. There were no purchases or sales of assets classified as Level 3 during the years ended December 31, 2018 and 2017.

	FAIR VALUE (IN MILLIONS)	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY (IF CURRENTLY ELIGIBLE)	REDEMPTION NOTICE PERIOD
Private equity funds	$ 8,100	$ 2,900	$ —	$ —

This class includes several private equity funds that invest primarily in real estate, energy infrastructure, and other private equity funds. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 3 to 8 years, subject to 2 to 4 one-year extensions. However, as of December 31, 2018, it is probable that all of the investments in this class will be sold at an amount different from the net asset value of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this class have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments. As of December 31, 2018, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve of the buyer before the sale of the investments can be completed.

4. Other Assets and Liabilities

	2018	2017
Other Assets		
Computer equipment and software - net of accumulated depreciation of $6,467 and $6,426, respectively	$ 857	$ 188
Receivable for securities sold	127	340
Accrued interest receivable	872	998
Income tax recoverable	967	500
Prepaid reinsurance premiums	3,768	3,334
Management fee receivable	1,941	1,727
Net recovery US Oil Spill Liability Trust Fund	1,944	1,944
Other assets	7,038	5,426
	$ 17,514	**$ 14,457**
Other Liabilities		
Accrued expenses	$ 9,879	$ 6,492
Liability for securities purchased	2,337	91
Income tax payable	1	1
	$ 12,217	**$ 6,584**

A recovery in the amount of $1.9 million at December 31, 2018 and 2017 respectively, from the US Oil Spill Liability Trust Fund is also included in other assets in the table above.

The Oil Spill Liability Trust Fund (OSLTF or Fund) is a fund established as a funding source to pay removal costs and damages resulting from oil spills in waters of the United States. The United States Coast Guard's National Pollution Funds Center (NPFC), in Arlington, Virginia, manages use of the OSLTF.

5. Debt

At December 31, 2018 and 2017 the Association owed $10 million and $20 million, respectively, on a demand promissory note from Deutsche Bank Trust Company America (“demand promissory note”). Interest on the demand promissory note was calculated using a rate of 3-month LIBOR plus 1 percent. Interest accrued at December 31, 2018 and 2017 was $35 and $51, respectively. Borrowings totaling $5.0 million, and $5.0 million have been extended and will be due August 2019, and September 2019.

During 2015, a surplus note with an interest rate of 8% and a date of maturity of December 20, 2040, in the amount of $19.5 million was issued in exchange for cash as a private placement issue by the Association. No payment of principal or interest shall be permitted on the surplus note without the prior approval of the Superintendent of the New York State Department of Financial Services and shall only be made out of free or divisible surplus of the Association. In the event of the liquidation of the Association, the claims under this surplus note shall be paid out of any assets remaining after the payment of all policy obligations and all other liabilities, but before distribution of assets to members. Interest accrued on the note at December 31, 2018 was $4.7 million and was recorded under Other liabilities on the balance sheet.

6. Unpaid Losses and Reinsurance Recoverable

Activity in the liability for unpaid losses and allocated loss adjustment expenses and unreported losses is summarized as follows:

	2018	2017
Gross balance at January 1	$ 193,493	$ 222,214
Less reinsurance recoverable on unpaid losses	48,028	50,508
Net Balance at January 1	**145,465**	**171,706**
Incurred related to:		
Current year	44,906	46,539
Prior years	999	(10,237)
Total Net Incurred	**45,905**	**36,302**
Paid related to:		
Current year	10,221	10,828
Prior years	38,143	51,715
Total Net Paid	**48,364**	**62,543**
Net balance at December 31	**143,006**	**145,465**
Plus reinsurance recoverable on unpaid losses	49,683	48,028
Gross Balance at December 31	**$ 192,689**	**$ 193,493**

In 2018, unfavorable development for prior years was $ 7.7 million. The unfavorable development was the result of $ 5.8 million expected emergence for the 2017 policy year, along with additional emergence of $3.5 million, which was offset by a favorable emergence of $1.6 million for policy years 2016 and prior. An increase or decrease due to re-estimation of prior years’ losses is generally a result of ongoing analysis of recent loss development trends as well as claim reviews on specific files.

In 2017, favorable development for prior years was $2.7 million. The favorable development was the result of $4.9 million expected emergence for the 2016 policy year, which was offset by a favorable emergence of $7.7 million for policy years 2015 and prior. An increase or decrease due to re-estimation of prior years’ losses is generally a result of ongoing analysis of recent loss development trends as well as claim reviews on specific files.

Original estimates are increased or decreased as additional information becomes known regarding individual claims. A fluctuation in reserves within a reasonable actuarially calculated range of those carried by the Association at December 31, 2018 is not expected to materially impact surplus.

The following tables present information about incurred and paid claims development on Ocean Marine Business as of December 31, 2018, net of reinsurance, as well as cumulative claims frequency. The table includes unaudited information about incurred and paid claims development for the years ended December 31, 2009 through 2016, which the Association presents as supplementary information. The number of reported claims is measured by claim event and an individual claim event may result in more than one reported claim. The Association considers a claim that does not result in a liability as a claim closed without payment. All the claim count information is disclosed on a per claimant basis.

Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance
For the Years Ended December 31

Accident Year	Unaudited											at Dec 31, 2018
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR 2018	Cumulative Number of Reported Claims
2009	$80,376	$78,622	$77,904	$79,229	$81,625	$81,433	$83,097	$82,597	$81,763	$81,197	$170	1,797
2010		72,234	67,817	67,271	64,298	63,492	63,330	63,233	62,244	62,015	199	2,047
2011			74,353	74,842	67,861	69,520	69,778	69,026	66,279	65,126	388	1,856
2012				74,409	69,348	65,895	64,766	67,837	65,615	65,273	1,662	1,747
2013					77,992	71,244	66,232	72,860	73,504	74,850	1,558	1,776
2014						71,946	68,966	67,533	67,578	66,662	2,360	1,860
2015							55,047	47,232	44,471	43,635	3,240	1,576
2016								61,890	58,586	57,791	2,367	1,590
2017									46,539	51,749	3,521	2,054
2018										44,906	8,948	1,699
									Total	$ 613,204	$24,413	

Paid Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance
For the Years Ended December 31

Accident Year	Unaudited										Claims Duration
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
2009	$16,734	$28,510	$33,975	$50,044	$60,567	$69,881	$74,336	$76,460	$79,406	$79,790	2.1%
2010		9,612	34,443	40,531	49,421	54,150	56,472	58,604	59,357	59,732	1.4%
2011			37,074	32,097	47,317	52,194	56,673	58,832	62,948	63,202	3.8%
2012				10,486	35,955	50,843	58,807	55,700	61,395	61,455	6.0%
2013					17,860	25,743	37,780	53,536	60,493	62,600	6.0%
2014						12,707	28,385	50,292	56,336	59,113	13.1%
2015							7,678	18,576	25,390	28,631	18.5%
2016								13,911	29,903	41,865	22.8%
2017									10,828	27,900	23.7%
2018										10,221	
									Total	$494,508	
	All outstanding liabilities prior to 2009, net of reinsurance									$ 24,310	
	Liabilities for claims and claim adjustment expenses, net of reinsurance									$143,006	

	2018	2017
Reinsurance recoverable on unpaid losses	$ 49,683	$ 48,028
Reinsurance recoverable on paid losses	1,428	2,314
Total reinsurance recoverable	**$ 51,111**	**$ 50,342**

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

	2018	2017
Direct	$ 50,468	$ 45,642
Assumed	14,883	8,354
Ceded	(19,446)	(17,694)
Total losses and loss adjustment expenses incurred	**$ 45,905**	**$ 36,302**

7. Premiums and Assessments

		2018		2017
Premiums written and billed assessments	$	96,977	$	98,673
Change in unbilled assessments		770		1,734
Return premiums		(481)		(822)
Reinsurance premiums ceded		(22,546)		(24,194)
Net premiums and assessments written		**74,720**		**75,391**
(Increase) decrease in net unearned premiums		(1,315)		(1,196)
Net Premiums and Assessments Earned	**$**	**73,405**	**$**	**74,195**

At December 31, 2018 and 2017, an unbilled assessment in the amount of $15.6 million and $14.8 million respectively, was recorded as a result of the Association's asbestos-related claims settlement agreement as described in Note 9. The Association is a fully assessable mutual insurance company. It has the ability to charge subsequent assessments to cover losses and operating expenses. The unbilled assessment represents the amount that would be needed to cover the asbestos reserves.

8. Other Operating Expenses

		2018		2017
Management fee	$	19,064	$	16,881
Bad debts		502		4,089
Brokerage		9,786		9,515
Other		10,453		9,815
Total Other Operating Expenses	**$**	**39,805**	**$**	**40,300**

9. Commitments and Contingencies

Letters of Credit – At December 31, 2018 and 2017, the Association had outstanding letters of credit for $4.5 million and $6.0 million, respectively. The bond investment accounts, held by Deutsche Bank Trust Company America as custodian, are pledged as collateral for the Letters of Credit.

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.

		2018		2017
Asbestos-Related Claims				
Aggregate gross losses paid to date at December 31	$	15,325	$	14,436
Loss reserves - reported		5,533		5,755
Loss reserves - unreported		9,521		8,696

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, 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.

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.

10. Statutory Filings

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

State insurance statutes require the Association to maintain a minimum statutory surplus of $250 and permit the Department to specify a higher amount at its discretion. The Department has specified $7.5 million as the minimum surplus to be maintained by the Association. The Association reported statutory surplus of $59.2 million and $74.8 million as of December 31, 2018 and December 31, 2017, respectively.

The Association is currently undergoing its mandatory state examination. The statutory surplus reported here is subject to further adjustment, which will not be known until the final report is issued and agreed to at the completion of the examination process.

11. Leases

The Association's managers have a lease in which they are the named tenant, which commenced on March 1, 2014 and expires September 30, 2029. The Association is the guarantor of this lease agreement. The potential obligation of the guarantee over the term of the lease is approximately $18.3 million.

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, 2018.

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, 2018 the ratio of 26.6% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 24.1% recorded for the five years ended December 31, 2017.

However, when considering brokerage expense netted against calls and premiums earned rather than including in operating costs as shown in the accounts, the calculated ratio for the five years ended December 31, 2018 is 20.5%. This compares with a ratio of 18.4% calculated for the five years ended December 31, 2017.

These calculations reflect all known information through December 31, 2018.

13. Subsequent Events

Subsequent events have been considered through June 14, 2019 for the audited financial statements were available to be issued. No other events occurred subsequent to December 31, 2018, through June 14, 2019 which would have a material effect on the financial position, results of operations or cash flows of the Association.

* * * * *

Unaudited Supplemental Schedules

Statement of Operations and Comprehensive Income Years Ended December 31, 2018 and 2017

	P&I		FD&D	
IN THOUSANDS	2018	2017	2018	2017
INCOME				
Net premiums and assessments earned	$ 64,043	$ 68,582	$ 3,734	$ 3,807
Net investment income	3,856	4,345	167	241
Net realized investment gains	2,175	3,281	61	179
Net recovery from US Oil Spill Liability Trust Fund	—	—	—	—
Total Income	70,074	76,208	3,962	4,227
EXPENSES				
Losses and loss adjustment expenses incurred	38,748	31,382	2,253	1,764
Other operating expenses	35,043	36,230	2,043	2,011
Total Expenses	73,791	67,612	4,296	3,775
Income (Loss) Before Income Taxes	(3,717)	8,596	(334)	452
Income tax provision	435	27	25	1
Net Income (Loss)	(3,282)	8,623	(309)	453
OTHER COMPREHENSIVE LOSS, NET OF TAX				
Unrealized losses on investments	(6,505)	461	(379)	26
Other Comprehensive Gain (Loss)	(6,505)	461	(379)	26
Comprehensive Income (Loss)	$ (9,787)	$ 9,084	$ (688)	$ 479

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.

Note: The operations of AHHIC, Inc,. a wholly owned subsidiary, has not been included in this presentation.

Unaudited Supplemental Schedules
Losses and Reinsurance Recoverable Years Ended December 31, 2018 and 2017

IN THOUSANDS	2018	2017
NET CLAIMS PAID		
Gross claims paid:		
Members' claims	$ 52,881	$ 73,347
Other Clubs' Pool claims	7,352	5,450
	60,233	78,797
Recoveries on claims paid:		
From the Group excess of loss reinsurance	4	5
From the Pool	8,776	13,606
Other reinsurers	5,925	4,655
	14,705	18,266
Net Claims Paid	$ 45,528	$ 60,531
CHANGE IN NET PROVISION FOR CLAIMS		
Claims outstanding:		
Members' claims	129,252	138,889
Other Clubs' Pool claims	57,269	49,738
	186,521	188,627
Reinsurance recoverables:		
From the Group excess of loss reinsurance	117	118
From the Pool	12,268	18,071
Other reinsurers	34,133	27,472
	46,518	45,661
Net claims outstanding at December 31	140,003	142,966
Net claims outstanding at January 1	142,966	172,673
Change in Net Provision for Claims	$ (2,963)	$ (29,707)

Unaudited Supplemental Schedules
Open and Closed Years and Contingency Fund

The Association maintains separate accounting for each policy year, which runs from February 20 through February 20, and keeps policy years open until the Board of Directors resolve to close the year. Years are closed after the ultimate liabilities for that year are known with a high degree of probability. The 2015/16 policy year was closed on March 31, 2018, without further calls.

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

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

Note: The operations of AHHIC, Inc,. a wholly owned subsidiary, has not been included in this presentation.

DEVELOPMENT OF OPEN POLICY YEARS

	2016–17	2017–18	2018–19
INCOME			
Calls and premiums – net	$ 85,330	$ 80,924	$ 65,938
Investment income	4,591	3,416	1,968
Total Income	**89,921**	**84,340**	**67,906**
EXPENSES			
Net paid losses	43,330	21,035	3,698
Net pending losses	13,730	20,908	20,744
Unreported losses	2,166	3,649	7,973
Reinsurance premiums	15,097	20,295	15,391
Other operating expenses	25,490	26,031	21,989
Total Expenses	**99,813**	**91,918**	**69,795**
RETAINED EARNINGS (DEFICIT)	**(9,892)**	**(7,579)**	**(1,888)**
MEMBERS' EQUITY (DEFICIT): OPEN YEARS	**$ (9,892)**	**$ (7,579)**	**$ (1,888)**

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

2016/17	$6,285
2017/18	$6,502
2018/19	$6,628

For the 2018/19 policy years calls and premiums are stated on an earned basis to December 31, 2018. Expenses are stated on an accrued basis for the same period.

CLAIMS OUTSTANDING (INCLUDING UNREPORTED LOSSES) - OPEN YEARS

	2016–17	2017–18	2018–19
Gross outstanding claims			
Members' claims	$ 17,399	$ 29,978	$ 22,010
Other Club's Pool claims	5,048	9,380	11,632
	22,447	**39,358**	**33,642**
Pending reinsurance recovery			
From the Group excess of loss reinsurance	—	—	—
From the Pool	4,871	—	—
Other reinsurers	1,680	14,801	4,925
	6,551	14,801	4,925
Net Outstanding Claims	**$ 15,896**	**$ 24,557**	**$ 28,717**

Note: The operations of AHHIC, Inc,. a wholly owned subsidiary, has not been included in this presentation.

DEVELOPMENT OF CLOSED POLICY YEARS AND CONTINGENCY FUND

	2018	2017
Closed Years' Balance, January 1	$ —	$ —
Total income earned	10,096	2,528
Net paid losses	14,565	29,164
Net pending losses	(9,885)	(29,096)
Unreported losses	502	(1,818)
Reinsurance premiums	26	(490)
Other operating expenses	5,880	2,586
Total expenses incurred	11,088	346
Unrealized investment gains (losses)	(6,911)	526
Transfer from closed policy year 2015/16	11,980	—
Transfer from closed policy year 2014/15	—	(5,001)
Net change	4,077	(2,293)
Transfer from (to) contingency fund	(4,077)	2,293
Closed Years' Balance, December 31	$ —	$ —
Contingency Fund Balance, January 1	$ 60,507	$ 62,800
Transfer from (to) closed policy years	4,077	(2,293)
Contingency Fund Balance, December 31	$ 64,584	$ 60,507
Open Policy Years' Equity		
2015/16	$ —	$ 10,084
2016/17	(9,892)	(6,940)
2017/18	(7,579)	(6,037)
2018/19	(1,888)	—
Total Members' Equity	$ 45,225	$ 57,614
Claims Outstanding (including unreported losses) – Closed Years		
Gross pending losses		
Members' claims	$ 59,864	$ 59,204
Other Clubs' Pool claims	31,209	23,136
	91,073	82,340
Pending reinsurance recovery		
From the Group excess of loss reinsurance	117	118
From the Pool	7,397	8,750
Other reinsurers	12,727	10,826
	20,241	19,694
Net Pending Losses	$ 70,832	$ 62,646

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

The Mission of the American Club

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

Specifically, the American Club seeks to:

- Foster the development of a broadly-based, diverse and high quality membership by reference to vessel-type, trade and domicile of management
- Provide insurance services 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 exposure 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 its other business associates and counterparties
- 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

George D. Gourdomichalis, Chairman, PHOENIX SHIPPING & TRADING S.A.

Robert D. Bondurant, Deputy Chairman, MARTIN RESOURCE MGMT. CORP.

Richard H. Brown, Jr., INDEPENDENT BOARD MEMBER

Judy L. Collins, PATRIOT CONTRACT SERVICES, LLC

John E. Couloucoundis, DELTA NAVIGATION, INC.

Gary K. Cutler, POLING & CUTLER TRANSPORTATION, INC.

Kenneth T. Engstrom, CRUISE MANAGEMENT INTERNATIONAL, INC.

Elias Gotsis, EUROTANKERS INC.

Chih-Chien Hsu, EDDIE STEAMSHIP COMPANY, LTD.

Angelos D. Kostakos, OCEANSTAR MANAGEMENT INC.

Cliffe F. Laborde, LABORDE MARINE, LLC

Markos K. Marinakis, MARINAKIS CHARTERING INC.

Martin C. Recchuite, INDEPENDENT BOARD MEMBER

Craig Reinauer, REINAUER TRANSPORTATION COMPANIES

Katia Restis, ENTERPRISES SHIPPING & TRADING S.A.

Steven T. Scalzo, INDEPENDENT BOARD MEMBER

George Vakirtzis, POLEMBROS SHIPPING LIMITED

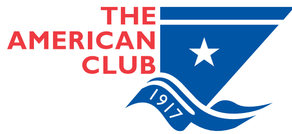
J. Arnold Witte, DONJON MARINE CO., INC.

Lianyu Zhu, CCCC INTERNATIONAL SHIPPING CORP.

Secretary

Joseph E. M. Hughes

As of June 1, 2019



AMERICAN STEAMSHIP OWNERS MUTUAL PROTECTION & INDEMNITY ASSOCIATION, INC.

SHIPOWNERS CLAIMS BUREAU, INC., MANAGER

One Battery Park Plaza, 31st Floor
New York, New York 10004 USA
TEL +1 212 847 4500
FAX +1 212 847 4599
WEB www.american-club.com
EMAIL info@american-club.com

2100 West Loop South, Suite 1525
Houston, TX 77027 USA
TEL +1 346 223 9900
EMAIL jana.byron@american-club.com

SHIPOWNERS CLAIMS BUREAU (UK) LTD.

78-79 Leadenhall Street
London, EC3A 3DH, UK
TEL +44 20 7709 1390
EMAIL claims@scb-uk.com

SHIPOWNERS CLAIMS BUREAU (HELLAS), INC.

51 Akti Miaouli – 4th Floor
Piraeus 185 36 Greece
TEL +30 210 429 4990 1 2 3
FAX +30 210 429 4187 8
EMAIL claims@scb-hellas.com

SCB MANAGEMENT CONSULTING SERVICES, LTD.

The Workstation, 28th Floor
43 Lyndhurst Terrace
Central, Hong Kong
TEL +852 3523 0582
FAX +852 3602 3111
EMAIL hkinfo@scbmcs.com

SCB MANAGEMENT CONSULTING (SHANGHAI) CO., LTD.

Room 1803 – Hongyi Plaza
288 Jiujiang Road
Shanghai 200001 People's Republic of China
TEL +86 21 3366 5000
FAX +86 21 3366 6100
EMAIL claims@scbmcs.com