THE AMERICAN CLUB

2006 ANNUAL REPORT

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HIGHLIGHTS

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- Wholesale review of Club's portfolio during 2006 informs comprehensive underwriting plan for 2007 and beyond.
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- 2003 policy year closed without further call, but adverse development in 2005 and 2006 prompts additional supplementary calls for each.
- 2004 policy year continues to exhibit strong surplus, despite high International Group Pool claims.
- Funds under investment continue to grow: redeployment of assets results in above-benchmark return for fiscal 2006.
- Incidence of claims stabilizes, but commodity price inflation and other factors continue to stimulate uplift in average values.
- Member service capabilities strengthened: Managers' offices in London and Piraeus amplify synergies with local constituencies: Shanghai office scheduled for end-2007.
- Loss prevention initiatives continue energetically: ***Protecting the Marine Environment*** published and poster series expanded: survey program develops robustly: pre-employment medical program achieves further outreach.
- 10% increase in rating ordered for 2007 plus application of larger deductibles: reinsurance costs remain broadly stable: new limit of $3 billion for passenger and crew claims in response to Athens Convention Protocol entails modification of Group reinsurance structure: club retentions rise to $7 million.
- 2007 renewal features reduction in tonnage year-on-year: wholesale reassessment of portfolio suggests improvement in prospective loss results for 2007 and subsequent policy years.

THE AMERICAN CLUB
2006 ANNUAL REPORT

2006 was a year of strategic reassessment for the American Club. Despite difficult trading conditions, progress was made in many areas. The Club's service capabilities were amplified. Loss prevention initiatives were further developed. Funds under investment continued both to grow and to enjoy better returns. IT systems were enhanced. The Club's underwriting portfolio underwent a comprehensive review leading to the further rationalization of its business at the 2007 renewal. Although the business environment remains challenging, the American Club has never been so clearly focused on the goals it has set itself for the years ahead.

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, 2006.

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

The Club's Annual Meeting took place in New York City on June 22, 2006. At that meeting, Mr. Paul Sa of Standard Shipping, Inc. was re-elected as Chairman and Mr. James P. Sweeney of Penn Maritime, Inc. was re-elected as Deputy Chairman. Mr. Lawrence J. Bowles was re-appointed as General Counsel to the Club and Mr. Joseph E.M. Hughes, the Chairman and CEO of the Managers, was re-appointed as Secretary.

At the same meeting, the Board noted with regret the resignation of Mr. Victor S. Restis of Enterprises Shipping and Trading, S.A. The Board took the opportunity of recording its thanks to Mr. Restis for his contribution to the business of the Club during his tenure.

However, the Board was at the same time pleased to welcome Ms. Katia Restis of Enterprises Shipping and Trading, S.A. as a new Director, in anticipation of her making a valuable contribution to the Club's affairs over the years to come.

It was also with regret that the Board noted the resignation, in November 2006, of Mr. Calvin W.S. Cheng of Eastmark Associates, Inc. and, in February 2007, of Mr. Samuel A. Giberga of Hornbeck Offshore Services Inc. Again, the Board wishes to thank these gentlemen for their contribution to the business of the Club during their respective tenures.

A full list of current Directors – and the Secretary – is set out on the inside back cover.

In addition to their participation in the Annual Meeting, the Directors convened three other times during 2006. Aside from the Annual Meeting, the Directors met on two other occasions in New York. The last meeting of the year was held in Dubai in November, being the Board's customary visit to an overseas venue where, in addition to conducting the Club's formal business, the Directors and Managers were able to meet with and entertain members of the local shipping community.

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

- Election of Directors.
- Policy year accounts and closing relevant years.
- Settlement of claims of the Club's Members.
- Settlement of International Group of P&I Clubs' Pool claims.
- Setting of premium levels for the subsequent policy year.
- Development of an action seeking a declaratory judgment as to the treatment of unreserved and unreported claims in policy years prior to 1989.
- Reinsurance, including developments in the business of the International Group's segregated cell captive reinsurer, Hydra Insurance Company, Limited.
- Investment policy.
- Outcome of renewal negotiations.
- Budgeting policy for relevant policy years.
- Changes to the Club's Rules.
- Reports of the business of the Managers' London and Greek offices.
- Development of the Club's new IT system.
- Club publications.
- Meetings of managers of the International Group of P&I Clubs.
- The likely implementation of a Protocol to the Athens Convention and its impact upon cover for passengers and crew and the reinsurance arrangements in respect thereof.
- Developments in regard to global shipping regulations.

The period under review saw the formal closing of the 2003 policy year, without further call in excess of latest forecasts, as of June 30, 2006. In Club Circular No. 23/06 of November 28, 2006, Members were informed of a requirement for calls on both the 2005 and 2006 policy years of 15% of the Advance Call for each year. It was felt appropriate that a further call should in principle be charged for reasons more extensively discussed in the Circular itself and as further elaborated upon in the Report of the Managers below.

The 2005 call was ordered for payment in one installment on May 20, 2007. The call in relation to 2006 was similarly ordered for payment on September 20, 2007.

While it is always a source of regret that such calls should be necessary, the Directors take the view that, in an increasingly demanding regulatory and rating climate, coupled too with a claims environment showing strong inflationary trends, the need to maintain decent levels of capitalization remains paramount. However, it should be noted that – as has consistently been the case – the Club's liquidity remains very robust indeed.

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

The initiative of earlier years in regard to the publication of easy-to-read booklets entitled ***Preventing Fatigue*** and ***Shipboard Safety*** was repeated in the form of a further booklet called ***Protecting the Marine Environment***. Again, this document was widely distributed for both ship-board use and for reference ashore. Moreover, in conjunction with these initiatives, a series of posters highlighting safety and best practice in avoiding accidents at sea continues to be distributed within the membership and to other interested parties. Other loss prevention and claims control information was disseminated through the Club's web-based Member Alert system and through Circulars. In addition, the Club's initiative in recruiting clinics in the Ukraine and the

Philippines for the systematic implementation of Pre-Employment Medical Examinations (PEMEs) was further developed and refined. It was also decided to extend this activity to Latvia, Poland, Romania and the Russian Federation. This is described in greater detail in the Report of the Managers.

On the investment front, the Finance Committee continued to review the Club's strategy and received regular reports from the Club's investment advisors in order to monitor the optimum posture for the commitment of the Club's funds. The decision made toward year-end 2005 to restructure the manner in which investments were managed through the appointment of Merrill Lynch as advising intermediary between the Club and individual fund managers has proved to be a fruitful direction for the Club. Overall, on a blended basis, the return on the Club's investments was 6.59%, somewhat ahead of a benchmark figure of 6.48%. This is dealt with in further detail in the relevant section of the Managers' Report.

At the Board meeting in Paris in November 2005, it was decided that a Claims Committee of the Directors should be established. Its purpose would be to review – in a broad, supervisory context – a range of matters affecting both P&I and FD&D claims.

The Claims Committee met on four occasions during 2006 in order to consider claims development on recent policy years, recent court decisions, the development of International Group Pool claims and other related matters. It has also been involved in liaising with the Safety and Environmental Protection Committee and the Club's underwriting department as part of the plan to achieve enhanced technical results for 2007 and beyond.

In closing, the Directors thank the Members for their continuing support of the Club, support which is not taken for granted, but must continue to be earned. Thanks are also due to the many others who worked hard in 2006 to progress the Club's aims in a continuingly difficult environment for the P&I sector in general.

Your Board is aware that continuing challenges lie ahead not only for the American Club but for the industry as a whole. In spite of this, the Club is thoroughly optimistic as to the future which it views as holding many exciting prospects both for itself and for its many friends at home and abroad.

REPORT OF THE MANAGERS

In common with other recent years, 2006 was marked by progress for the American Club, although it faced many challenges.

Despite rising premium rates per ton and growing funds under investment, the Club – in like manner to the industry as a whole – was confronted by a difficult claims and regulatory climate, the former reflecting an energetic freight market, the latter aggravated by the relentless politicization of the consequences of marine accidents, especially those involving pollution.

The need to obtain sensible underwriting results through realistic rating and the careful monitoring of vessel quality remained paramount. Further progress was made in this direction during 2006. This entailed a wholesale review of the Club's portfolio, discussed in greater detail later in this report.

Entered Tonnage, Underwriting and Reinsurance

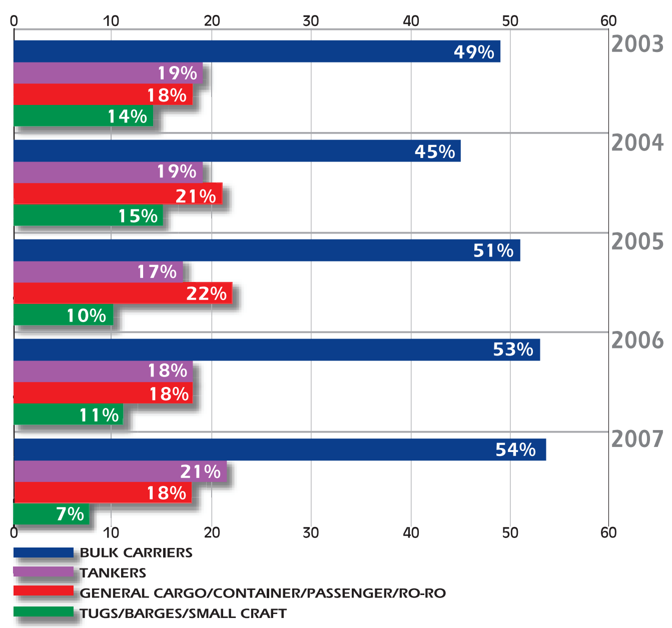
The 2006 renewal featured a small tonnage decline by comparison with the all-time high of November 17, 2005.

Overall, net losses exceeded gains by about 500,000 gross tons resulting in a small dip in net written premium for the year. This took place, however, against a background of a general increase of 10% ordered by the Board the previous November. In the result, an overall rise in premium on renewing tonnage of about 8% was achieved. Uplifts were also obtained in deductible levels so as to create a more realistic balance of exposure as between Member and Club in individual cases.

For the February 20, 2007 renewal the Club's Board mandated a further general increase of 10% on expiring premiums to be linked once again to an increase in deductibles where appropriate.

From a high figure of 22.3 million gross tons as of February 20, 2006, overall tonnage in the Club declined to about 19.3 million gross tons as of February 20, 2007.

OWNED AND CHARTERED TONNAGE BY VESSEL TYPE



Some of this tonnage loss was of a progressive nature during 2006 and into the 2007 renewal. As part of the portfolio review mentioned above, the Club's underwriting plan provided for certain mid-year cancellations and the non-renewal of a number of other accounts. Collectively, these two categories accounted for about 1.1 million gross tons and approximately 100 vessels being discharged from the portfolio.

Mid-year cancellations and organic contraction – notably in the chartering sector – resulted in a reduction of entered tonnage to about 20.5 million gross tons by mid-November, 2006. The further decline to approximately 19.3 million gross tons as of February 20, 2007 was attributable to planned non-renewals as well as tonnage which was involuntarily lost to the Club, balanced by certain new entries. Overall, the net loss of renewable, mutual P&I business over the period was about 500,000 gross tons – a respectable outcome in the circumstances.

The tonnage which was declined renewal had an historical loss ratio of 121% for the period 2001 to 2006 – a collectively negative result in respect of which the Club has now unburdened itself. At the same time, the tonnage whose owners chose not to renew with the Club had a loss ratio of 72% for the equivalent period – i.e. just on, or slightly above, break-even.

However, it is encouraging to note that the fleets renewed and currently entered with the American Club for 2007 have a collective historical loss ratio of 66% i.e. better than break-even.

This compares with an historical loss ratio in excess of 90% for all entered fleets for 2001 to 2006, inferring that renewed entries in the Club for 2007 are significantly better performers than those on average in the past. This augurs well for the future.

On a rate per ton basis, the 2007 renewals for P&I mutual (owned) entries exhibited an overall uplift of about 8% in cash terms. In the FD&D and Charterers' sectors (Classes II & III respectively) rating was broadly static.

However, substantial increases in deductibles were achieved across the mutual P&I book in particular.

An extrapolative exercise undertaken in relation to certain major accounts suggests a premium rating value of these increases of a further 5% over and above the cash rise of 8% mentioned above.

As in the case of 2006, the Advance Call for 2007 for all classes of mutual business represents the Estimated Total Premium for the year, the corollary being a zero Supplementary Call forecast at its commencement. This pattern of premium collection has been a feature of recent years and has created a cash flow benefit for the Club contributing to the increase in its funds under investment.

The Club's current membership by reference to vessel type, the proportion of tonnage attributable to owners' and charterers' insurances and its breakdown by reference to management domicile, are set out in the tables on pages 7, 11 and 13 respectively.

While the split between owned and chartered entries has remained much the same year-on-year, the Club's entry in relation of management domicile has changed somewhat. Although the proportion of tonnage entered for Members domiciled in the United States and other, miscellaneous areas has remained constant, the tonnage of Asian Members has grown from about 17% to about 27% of total entries, with a decline, pari passu, in the volume from Europe, i.e. from 63% to 53%.

On the reinsurance front, the Club's arrangements during 2006 remained essentially unchanged from those of 2005. Participation in the International Group of P&I Clubs' scheme continued, entailing a retention of $6 million per claim and sharing in the Group Pool for a further $44 million over and above that figure. The lower layer of the Pool remained at $24 million during 2006 with the upper layer (i.e. $20 million excess of $30 million) being reinsured, as was the case during the previous year, by the International Group's Bermuda-based captive, Hydra Insurance Company Limited.

Hydra is a segregated cell captive whose 13 cells – one for each club in the Group – reinsure the Group's exposure to claims in the upper layer of the Pool as well as the 25% vertical co-insurance which the Group retains on the first $500 million of its market protection. Each cell reinsures its respective club for this purpose.

Above the pooling layer, the American Club continued to benefit from the International Group's commercial reinsurance program where, for 2006, the familiar four-layered design (in cumulative tranches of $500 million each) was maintained, providing a total of $2.05 billion cover for non-oil pollution risks and $1.05 billion for oil pollution claims.

For 2007, three major changes have been made to the Group's arrangements.

Firstly, there is an increase in individual club retentions from $6 million to $7 million any one claim, although the ceiling of the Pool has remained unchanged for 2007, as has the layer ($20 million excess $30 million) reinsured by Hydra.

Second, the two layers of $500 million which for 2006 had applied in excess of $1.05 billion for non-oil pollution claims have been consolidated into a single layer of $1 billion with unlimited reinstatements. Earlier, the uppermost tranche (of $500 million excess of $1,550 million) had been subject to one reinstatement only.

Finally, as a result of the compromise reached within the International Group as to cover for claims in respect of passengers and crew generated by the Protocol to the Athens Convention, a new tranche of $1 billion by way of collective overspill cover for non-oil pollution claims over and above the $2.05 billion limit for 2006 has been purchased. This is subject to a single reinstatement provision. It is intended to reflect the new $3 billion combined limit for passenger and crew claims, with a sub-limit of $2 billion for passenger claims specifically, agreed by the Group for 2007.

The program for 2007 is set out in the schematic on page 8.

Supplementary Calls

The period under review saw the formal closing of the 2003 policy year, without further call in excess of the latest forecast, as of June 30, 2006.

Toward the end of 2006, it became clear that, while the 2004 policy year was performing strongly despite a record exposure to Pool claims, 2005 and 2006 were deteriorating, the former year's results negatively impacted by Hurricane Katrina wreck removal claims, by an increase in the value of cargo claims in consequence of mounting commodity prices and by more conservative loss reserving.

As to 2006, it was clear that this year was developing as the worst Pool year on record and that, by reason of this and other factors, a potential shortfall of some 15% or so of revenue was likely by the time the year came to be closed.

Having considered these developments and being, above all, motivated by the Club's long term best interests, the Directors decided that additional calls of 15% of the Advance Call should be levied for both the 2005 and 2006 policy years.

This was notified to the Members in Club Circular No. 23/06 on November 28, 2006. The 2005 call was ordered to fall due for payment in one installment on May 20, 2007. The call in relation to 2006 was similarly ordered for payment on September 20, 2007.

It is always a source of regret that such calls should be necessary. However, a firm decision was taken that, in an increasingly demanding regulatory and rating climate, coupled too with a claims environment showing strong inflationary trends, the need to maintain decent levels of capitalization remained paramount.

The Club's liquidity remains robust – as has consistently been the case – and there are grounds for cautious optimism that the Club's growing investment portfolio will do much to strengthen its capital base over the months and years ahead.

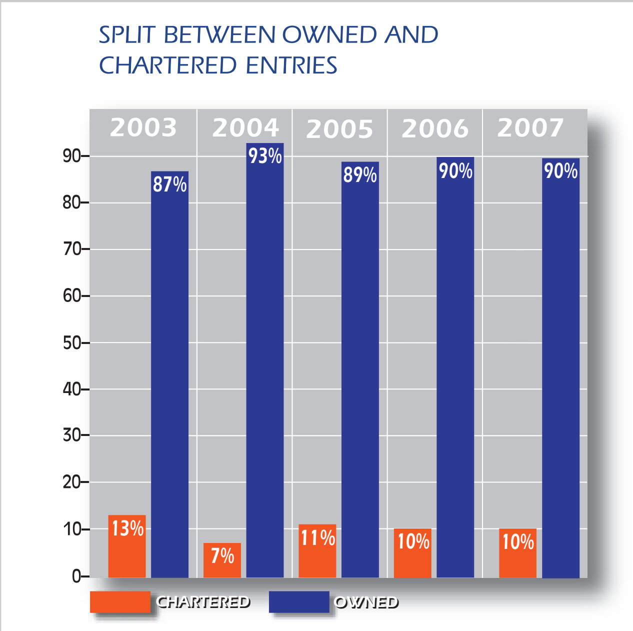
Finance and Investments

Last year, it was reported that, toward the end of 2005, an advising intermediary between the Club and its individual fund managers had been appointed. This intermediary, Merrill Lynch, continued to coordinate the deployment of the Club's funds under investment with the aim of achieving a better return than previously.

In global terms, cash and funds under investment grew from approximately $194 million at December 31, 2005 to nearly $224 million a year later. This increase – about 15% – was a function of strong revenue flows which expanded the investment portfolio.

Against this background, the potential for the Club's being able to secure capital appreciation as a means of building its contingency fund – as well as creating greater scope for improving the results of individual policy years – has never been greater. And, with larger funds with which to work, more rewarding options by way of diversification into different markets – including those overseas – have materialized.

During 2006 the Club maintained a portfolio broadly comprising 5% cash, 65% fixed-income



securities and 30% equities, of which 5% was committed to alternative investments during the latter part of the year.

Overall, the decision to restructure the manner in which investments are managed through the appointment of Merrill Lynch has proved to be a fruitful direction for the Club. The return on its investments was 6.59% by year-end, somewhat ahead of a blended benchmark figure of 6.48%, calculated by reference to the S&P 500 index and the Merrill Lynch 3-7 Muni index.

Turning to the markets themselves, the investment climate during the period under review featured several key themes.

On the equity front, the long-running phenomenon of small outperforming large cap companies continued for most of the year with commodity, energy and "risky" asset classes performing well, investors being willing to take on more risk for additional return even where this involved relatively low quality, highly levered entities.

In May 2006, however, there was a market correction. Cautionary rhetoric from the Federal Reserve on inflation caused the largest adjustment in over three years with "risky" assets depreciating the most. Emerging market positions declined by about 11% and commodity-related investments by 20% at that point. This was in conjunction, too, with a reduction in annualized US GDP growth to 2.6%.

In the third quarter of 2006, however, something of a rally took place, featuring a change in market leadership. The Fed paused and fixed income securities rallied, the ten year yield reducing from 5.25% to 4.6% over the period.

Developed markets started to outperform overseas emerging markets with the MSCI EAFE showing an uplift of 14% as against an MSCI EM index rise of only 9.6%. This trend was also experienced in the US equity markets with a flight to larger cap, high quality companies. For example, the Russell 1000 rose 5.50% during the quarter while the Russell 2000 (being the relevant small cap index) rose only 0.43%

The outlook for 2007 suggests a market at an inflection point. This is likely to be characterized by low-trend GDP growth during the year, coupled with a slowing of corporate earnings. Interest rate policy at the Federal Reserve is likely to remain in a holding pattern as data relevant to prospective decisions emerges over time.

To a large degree, economic and market stability will depend on global demand in a tightening liquidity environment based on various factors including levels of business spending, wages growth and energy prices.

Given these uncertainties, current economic fundamentals suggest that investment in securities perceived to be of high quality will remain a dominant choice over the months ahead. Investors will likely reward companies that grow earnings faster than the market and display strong balance sheets, against a background of low interest rates and reasonable price-to-earnings multiples.

Overall, and as displayed during the first four months of 2007, at the end of which the Dow broke 13,000 for the first time, a rally in higher quality stocks is likely to continue as uncertainty in the market grows.

Claims

Claims experience during 2006 developed in a manner much as anticipated and in line with prior years given the changes in tonnage which had occurred over the relevant twelve months.

Volume was down approximately 15% in the attritional layer – i.e. those claims with total incurred values up to $250,000 per claim. Nevertheless, 2006 saw a number of significant claims, including 37 in excess of $500,000 and 13 of over $1 million.

In total, the Club expects to process approximately 2,800 claims by the time the 2006 policy year comes to be closed. This is approximately 500 less than those which arose during 2005, reflecting something of a reduction in tonnage year-on-year.

The distribution of claims was largely consistent with prior policy years. In terms of their value, about 25% of claims at year-end 2006 concerned cargo incidents with about 20% by value attributable to cases involving death, injury and illness. As in the case of earlier years, the remainder of claims exposure comprised cases involving a wide range of causes of loss.

The Club's claims handling capabilities were enhanced during 2006. The Piraeus office continued to gain substantial traction in servicing Members' claims both in Greece and throughout the Eastern Mediterranean as a whole. Staff were added there as well as in New York and London.

The American Club's claims handling dynamic continues to be driven by a wide range of expertise including those of lawyers, surveyors, former correspondents, former seafarers and other insurance professionals native to, or with backgrounds from, a wide number of different countries creating a truly international perspective to the provision of Member service.

As to International Group Pool claims, these have escalated substantially in recent years. Concomitantly, this has affected the American Club's levels of contribution to those claims, notwithstanding the fact that its Pool record overall is thoroughly respectable.

During the five year period 1998 to 2002 inclusive, the Pool experienced an average of 19 claims per annum with an average annual total incurred exposure of $127 million. Over that period, the American Club's contribution to such claims amounted to an annual average of $2.2 million.

By contrast, during the four year period 2003 to 2006 inclusive – in the context of which it should be recalled that the 2006 year is still relatively immature and susceptible to upward movement – the Pool experienced an annual average of 24 claims with a collective exposure, on average, of $252 million per annum i.e. almost exactly double that of the earlier five year period.

The American Club's contribution to those claims was on average $6.5 million per annum or nearly three times that of the earlier experience. The disproportionate increase in the Club's obligations in this respect is due to its significant growth in tonnage and premium during the four years in question.

While the level of Pool claims can fluctuate considerably from year to year, there can be little argument that total exposures are in an upward direction. Nor does the trend appear to be of an attritional nature within the lower tranche of the Pool – the incidence of very large claims appears to be rising in a manner affecting the Hydra reinsurance vehicle.

This inflationary trend would be essentially unaffected by raising individual club retentions from current levels as proposed in some quarters of the Group.

Activity Within the International Group of P&I Clubs

Business conducted at International Group level continued vigorously throughout 2006, the American Club taking part in the Group's various initiatives with its customary desire to promote both the interests of its Members and those of the shipping community as a whole.

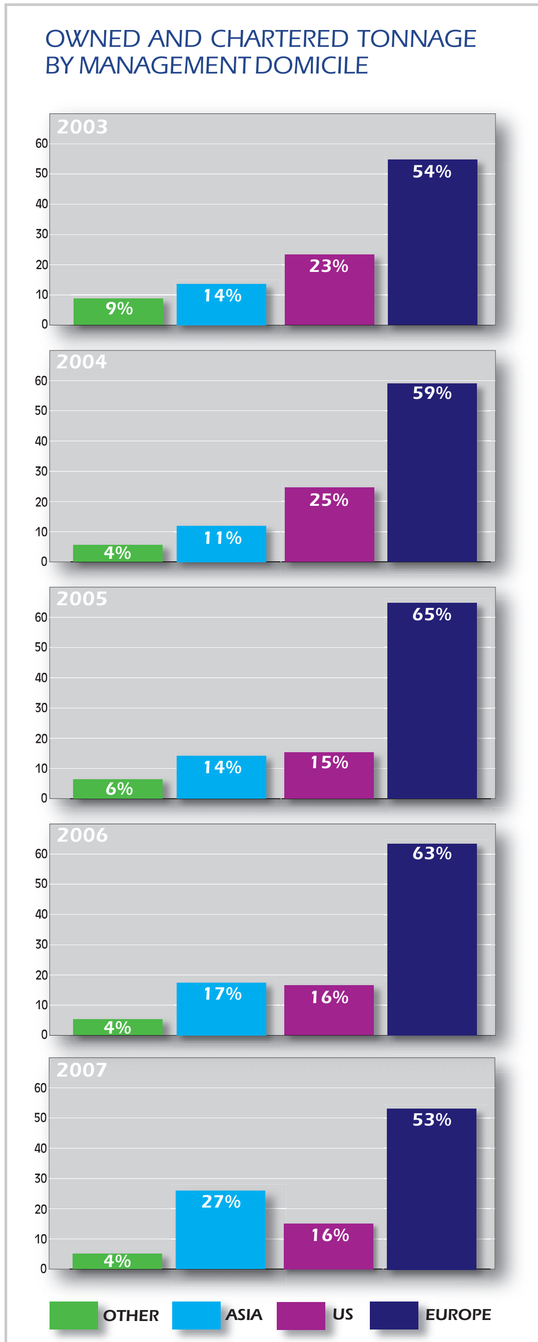
In response to concerns about substandard shipping in recent years, the International Group implemented several measures during the period under review.

By way of providing a common informational resource, a condition survey database has been established to record surveys conducted by clubs on entered vessels. This is updated monthly. Surveys are to be undertaken for sea-going vessels aged twelve years or more on entry, except for non-tankers below 500 GT and non-pooled vessels. Clubs have been given discretion to determine whether or not to undertake condition surveys on vessels of less than twelve years of age on entry.

The carriage of heavy fuel oil (HFO) by vessels aged ten or more years has been made to trigger condition survey requirements in certain circumstances, Members being required to make a declaration at the commencement of each policy year, in order to determine whether HFO has been carried during the previous twelve months.

As part of these initiatives, it is now a requirement that club underwriters check the condition survey database before quoting terms for entry, ask for sight of relevant condition survey reports and take account of them in assessing the risk. In addition, underwriters must check an agreed list of Indicators of Quality before quoting terms for entry.

In order to provide teeth to these initiatives, a new Appendix has been incorporated into the 2007/08 International Group Pooling Agreement, containing a procedure whereby a Club which finds a vessel to be unfit for insurance may seek to reduce the risk of having to share in subsequent Pool claims for that vessel, by making it subject to a double retention to be borne by the insuring Club for pooling purposes.



This would equate to a club retention of US$14 million for the 2007 policy year. Any vessel designated as unfit for insurance for more than one year would then be designated a "Proscribed Vessel", in which case no claims arising thereafter in respect of that vessel would be poolable. However, it remains open to an owner to apply for the vessel to be submitted for re-determination of its designated status.

The imminent implementation of the 2002 Protocol to the Athens Convention, and the higher levels of compensation it will stipulate for passenger injury, prompted the International Group to impose a US$3 billion combined limit on Club cover for passenger and crew risks, with a new sub-limit of US$2 billion to be applied to passenger risks specifically, with effect from February 20, 2007. This is also discussed in the section on reinsurance above.

The Group has yet to finalize its position on two other issues raised by the Protocol. First, on certification, the Protocol requires shipowners to provide direct action certificates in respect of the first 250,000 SDR per capita of any claim, with an overall liability exposure of 400,000 SDR per capita. Clubs would be required to issue certificates of financial responsibility and to be subject to direct action. The Group has consistently opposed the provision of direct action certificates. Secondly, as to liability for loss arising from terrorism, the Protocol will require clubs to provide certificates of financial responsibility covering terrorism, or terrorist-related risks, in addition to bio-chem exposures. The Group presently excludes cover for these risks.

Otherwise, the year was notable for the increasingly stringent marine insurance legislation introduced by various authorities around the world and the need for the International Group's constant vigilance in protecting shipowners' interests.

In Iceland, a new law (Act on Insurance Contracts, No 30/2004) entered into force, which provided, inter alia, for mandatory liability insurance cover for passengers and the right of direct action by passengers against P&I insurers, running counter to the 'pay to be paid' principle.

In India, where certain port authorities have been reluctant to accept Certificates of Entry which do not explicitly provide evidence of insurance cover for wreck removal and oil pollution liabilities, a new regulation has been introduced. This refers to a general requirement to 'produce an insurance cover', but without specifying that Certificates of Entry should be treated as being in compliance.

This has caused concern that certain port authorities may interpret these words as requiring some form of direct action certificate from clubs.

In South Korea, the Government has introduced legislation requiring compulsory insurance, in respect of cover for wreck removal and pollution liabilities, for all vessels calling at Korean ports. This follows similar legislation introduced in Japan in 2005. In both cases club Certificates of Entry have been deemed to demonstrate adequate proof of compliance.

Safety and Loss Prevention

The American Club continued to develop its loss prevention and condition survey initiatives during 2006. This was in amplification of the progress made over the previous year.

In 2006 survey activity increased 36% over that for 2005. The Club's approach to surveys was also the subject of review. There is now a more detailed case-by-case approach to the analysis of survey reports, the results of which continue to be issued within five days of receipt of original information. Moreover, the system of follow-up remains effective in reducing outstanding deficiencies of a more serious nature.

Both internal and external resources remained under continuous review as a means of helping to identify potential risks. There was close liaison with the Managers' claims department. Direct feedback from this department triggered several P&I condition surveys during the period. Additionally, weekly claims reports were regularly reviewed.

Port State Control (PSC) records also underwent regular assessment in order to highlight potential risks. Some 96 of 2,481 (3.87%) vessels detained through this period were entered with the Club as P&I owned entries (Paris MoU, Tokyo MoU and USCG). Detailed review of these records along with Members' direct responses helped trigger P&I condition survey requirements for 18 Club-entered vessels following port state detentions.

It is pleasing to note that there has been improvement in the standard of survey reports produced by third-party surveyors. This is due to further consolidation of the companies involved and rationalization of survey locations. The adoption of the International Group's standard report format has also helped. These forms are constantly being reviewed, updated and improved.

The Club has adopted ultrasonic weather-tightness testing of cargo hatch covers as a standard practice. The advantages of this method of testing are numerous and their increased accuracy has helped identify problems in individual cases.

As reported last year, the Club expanded the Pre-Employment Medical Examination (PEME) program to a total of six countries: Latvia, Philippines, Poland, Romania, the Russian Federation and Ukraine. As of February 20, 2007, compliance with the Club's PEME program became a condition of cover.

This policy decision was taken in consequence of the success of the program which has substantially reduced the incidence of pre-existing illness claims. It has been conservatively estimated that since 2004, the PEME program has saved the Club USD 6.75 million in otherwise reimbursable exposures.

In addition, the Club released its latest publication, ***Protecting the Marine Environment***. Its intention is to provide a user-friendly message to seafarers raising their awareness that what goes on the ship must also come off in an environmentally-friendly way. Environmental protection, as an issue of universal concern, has transcended purely scientific attention and now figures prominently on the socio-political agenda of the international community at large.

The Club also continued in the practice of releasing reports from the IMO on matters relevant to Members on regulatory changes affecting safety and environmental protection. The Club issued a total of four reports: two from the 54th and 55th sessions of the Marine Environmental Protection Committee and two from the 81st and 82nd sessions of the Maritime Safety Committee.

These reports update Members on such issues as air pollution, ship recycling, goal-based standards, human element and maritime security.

The Way Forward

Despite difficult trading conditions which attended both the P&I environment in general and the American Club's circumstances in particular, progress was made in many areas in 2006.

In strategic terms, the period under review was characterized by efforts to consolidate the Club's portfolio so as to achieve better-than-market technical results in the future in the context, too, of raising the Club's capital to investment grade rating over the medium term.

This will remain the chief commitment of the Club over the months ahead and every resource at its disposal will be harnessed to achieve its goals in this respect.

This will not be easy, since arduous conditions attend virtually every aspect of the P&I business. High levels of ship utilization encouraged by the continued buoyancy of the freight markets, together with rising commodity prices, have had a negative impact not just on cargo claims, but generally. This is to say nothing of an increasingly onerous liability climate facing shipowners by way of statutory demands and decisions handed down by the courts.

These are interesting times both for the American Club and for the industry as a whole. The Club's focus on the future has never been sharper than at present. Although it has undergone great change in recent times – the qualitative elements of its business in particular having developed remarkably over the past few years – it retains an undiminished enthusiasm to meet every challenge which lies ahead. The American Club intends to address those challenges with its characteristic vigor and resolve.

In this context, the Club will never lose sight of its core values and the need to foster the best traditions of its past as the bedrock upon which to continue to build a dynamic future. It remains determined to pursue its ambitions and overcome recent problems with energy.

In the final analysis, this will depend upon the promotion of a business integrity and service quality which are second-to-none in the business, ultimately informing the way in which the American Club is viewed by both its customers and its peers. The Club remains confident of its ability to achieve this in the knowledge that it can continue to earn the commitment and support of its Members and its many other friends and associates, both near and far.

2006 FINANCIAL REPORT

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche LLP
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To the American Steamship Owners Mutual Protection and Indemnity Association, Inc.

We have audited the accompanying consolidated balance sheets of American Steamship Owners Mutual Protection and Indemnity Association (the "Association") as of December 31, 2006 and 2005, and the related consolidated statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 6, 2007

Member of
Deloitte Touche Tohmatsu

2006 CONSOLIDATED BALANCE SHEETS

IN THOUSANDS	NOTE	DECEMBER 31 2006	2005
## Assets:			
Investments	3	**$ 208,770**	$ 184,687
Cash and cash equivalents		**15,027**	9,508
Members' balances receivable		**51,753**	32,014
Unbilled assessments	6	**—**	13,750
Reinsurance recoverable	5	**53,800**	32,601
Other assets	4	**6,772**	6,735
Total Assets		**$ 336,122**	$ 279,295
## Liabilities and Members' Equity			
Liabilities:			
Unpaid losses and allocated loss adjustment expenses	5	**$ 250,207**	$ 201,724
Unreported losses	5	**32,107**	40,825
Unearned premiums		**18,775**	18,991
Reinsurance payable		**1,962**	1,731
Other liabilities	4	**1,491**	1,095
Total Liabilities		**304,542**	264,366
Commitments and Contingencies	8		
Members' Equity:			
Retained earnings		**25,665**	10,611
Accumulated other comprehensive income		**5,915**	4,318
Total Members' Equity	10, 11	**31,580**	14,929
Total Liabilities and Members' Equity		**$ 336,122**	$ 279,295

2006 CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

IN THOUSANDS	NOTE	DECEMBER 31 2006	2005
Income:			
Net premiums and assessments earned	6	**$ 152,156**	$ 150,906
Net investment income		**5,511**	4,003
Realized investment gain		**5,119**	2,140
Total Income		**162,786**	157,049
Expenses:			
Losses and loss adjustment expenses incurred	5	**106,512**	139,694
Other operating expenses	7	**41,069**	36,906
Total Expenses		**147,581**	176,600
Income (Loss) Before Income Taxes		**15,205**	(19,551)
Provision for income taxes		**(151)**	(50)
Net Income (Loss)		**15,054**	(19,601)
Other Comprehensive Income, Net of Tax:			
Unrealized gains (losses) on investments		**1,597**	(434)
Other comprehensive income (loss)		**1,597**	(434)
Comprehensive Income (Loss)		**$ 16,651**	$ (20,035)

2006 CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2005		**$ 30,212**	**$ 4,752**	**$ 34,964**
Net loss		**(19,601)**		**(19,601)**
Unrealized investment loss		**—**	**(434)**	**(434)**
Balance, December 31, 2005	9	**10,611**	**4,318**	**14,929**
Net income		**15,054**		**15,054**
Unrealized investment gains		**—**	**1,597**	**1,597**
Balance, December 31, 2006	10, 11	**$ 25,665**	**$ 5,915**	**$ 31,580**

See notes to consolidated financial statements.

2006 CONSOLIDATED STATEMENTS OF CASH FLOWS

IN THOUSANDS	DECEMBER 31 **2006**	2005
Cash Flows from Operating Activities:		
Net Income (Loss)	**$ 15,054**	$ (19,601)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of bond premiums	**1,234**	1,056
Gain on long-term securities sold or redeemed	**(5,119)**	(2,140)
Depreciation	**681**	648
	(3,204)	(436)
Changes in operating assets and liabilities:		
(Increase) decrease in Members' balances receivable	**(19,739)**	18,953
(Increase) decrease in unbilled assessments	**13,750**	(13,750)
(Increase) decrease in reinsurance recoverable	**(21,199)**	(5,491)
(Increase) decrease in other assets	**37**	(1,400)
Increase (decrease) in unpaid an unreported losses and allocated loss adjustment expenses	**39,764**	73,667
Increase (decrease) in unearned premiums	**(216)**	796
Increase (decrease) in reinsurance payable	**231**	(474)
Increase (decrease) in other liabilities	**383**	689
	13,011	72,990
Net cash provided by operating activities	**24,861**	52,953
Cash Flows from Investing Activities:		
Proceeds from sales/maturities of investments	**100,586**	117,644
Purchases of investments	**(119,175)**	(171,912)
Purchases of fixed assets	**(753)**	(169)
Net cash used in investment activities	**(19,342)**	(54,437)
Net Change in Cash and Cash Equivalents	**5,519**	(1,484)
Cash and Cash Equivalents, Beginning of Year	**9,508**	10,992
Cash and Cash Equivalents, End of Year	**$ 15,027**	$ 9,508
Supplemental Information:		
Income taxes paid	**$ 133**	$ 37

2006 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Organization

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

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

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

2 Summary of Accounting Policies

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

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

Other invested assets 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. If, in management's judgement, the decline in value is other-than-temporary, the cost of the investment is written down to fair value with a corresponding charge to earnings.

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

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

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

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

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

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

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

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

3 Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2006:				
US Treasury and obligations of other US government corporations and agencies	$ 303	$ —	$ 12	$ 291
Short-term investments	492	7	—	499
Obligations of states and political subdivisions	132,739	587	951	132,375
Common stocks	59,293	7,563	1,397	65,459
Preferred stocks	27	—	—	27
Other invested assets	10,000	135	16	10,119
Total	$ 202,854	$ 8,292	$ 2,376	$ 208,770

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2005:				
US Treasury and obligations of other US government corporations and agencies	$ 305	$ —	$ 15	$ 290
Short-term investments	2,012	—	5	2,007
Obligations of states and political subdivisions	133,175	805	1,163	132,817
Common stocks	44,877	6,102	1,406	49,573
Total	$ 180,369	$ 6,907	$ 2,589	$ 184,687

All of the Association's fixed maturities with unrealized losses at both December 31, 2006 and 2005 have been in an unrealized position for less than twelve months as of each respective date.

The fair value and amortized cost of available-for-sale debt securities at December 31, 2006 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	$ 5,937	$ 5,922
Due after one year through five years	46,505	46,198
Due after five years through ten years	59,261	59,382
Due after ten years	21,831	21,663
Total	$ 133,534	$ 133,165

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

	2006	2005
Proceeds from sales of investments	$ 100,586	$ 117,644
Gross realized gains	7,553	3,703
Gross realized losses	2,434	1,563

There were no realized losses recorded in 2006 or 2005 that were a result of an investment being other-than-temporarily impaired.

At both December 31, 2006 and 2005, United States Government Treasury notes in the amount of $300 par value were deposited with regulatory authorities as required by law.

4 Other Assets and Liabilities

Other Assets	2006	2005
Computer equipment and software - net of accumulated depreciation of $3,828 and $3,147, respectively	$ 2,012	$ 1,940
Receivable for securities sold	23	603
Accrued interest receivable	1,980	1,910
Income tax recoverable	—	2
Prepaid reinsurance premiums	1,409	1,288
Management fee receivable	548	551
Other assets	800	441
	$ 6,772	$ 6,735

Other Liabilities		
Accrued expenses	403	644
Deferred income tax	9	4
Liability for securities purchased	1,067	447
Income tax payable	12	—
	$ 1,491	$ 1,095

5 Unpaid Losses and Reinsurance Recoverable

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

	2006	2005
Gross balance at January 1	$ 242,549	$ 168,883
Less reinsurance recoverables	23,507	23,063
Net Balance at January 1	219,042	145,820
Incurred related to:		
Current year	90,966	102,168
Prior years	15,546	37,526
Total net incurred	106,512	139,694
Paid related to:		
Current year	8,113	6,308
Prior years	73,801	60,164
Total net paid	81,914	66,472
Net balance at December 31	243,640	219,042
Plus reinsurance recoverables	38,674	23,507
Gross Balance at December 31	$ 282,314	$ 242,549

In 2006, loss emergence for prior years increased by $15.5 million. The increase reflects unfavorable emergence of $15.6 million for the 2005 policy year, all of which was expected development through the policy year end date of February 20, 2006, and favorable emergence of $0.1 million for policy years prior to 2005.

In 2005, loss emergence for prior years increased by $37.5 million. The increase reflects unfavorable emergence of $27.3 million for the 2004 policy year, $11.6 million of which was expected development through the policy year end date of February 20, 2005, and unfavorable emergence of $10.2 million for policy years prior to 2004.

	2006	2005
Reinsurance recoverable on unpaid losses	$ 38,674	$ 23,507
Reinsurance recoverable on paid losses	15,126	9,094
	$ 53,800	$ 32,601

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

Direct	$ 131,606	$ 141,174
Assumed	8,931	9,689
Ceded	(34,025)	(11,169)
	$ 106,512	$ 139,694

6 Premiums and Assessments

	2006	2005
Premiums written and billed assessments	$ 178,855	$ 150,372
Change in unbilled assessments	(13,750)	13,750
Return premiums	(1,312)	(1,865)
Reinsurance premiums ceded	(12,010)	(10,868)
Net premiums and assessments written	151,783	151,389
(Increase) decrease in unearned premiums	373	(483)
Net Premiums and Assessments Earned	$ 152,156	$ 150,906

In December 2006, assessments of $14.5 and $13.7 million were levied for the 2005 and 2006 policy years, respectively, and are recorded in Members' balances receivable. These assessments are due in one installment on May 20, 2007 for the 2005 policy year and September 20, 2007 for the 2006 policy year. There was an unbilled assessment at December 31, 2005 in the amount of $13.75 million for the 2003 policy year.

7 Other Expenses

	2006	2005
Management fee	$ 8,945	$ 9,378
Bad debts	3,037	1,234
Brokerage	17,159	15,246
Other	11,928	11,048
Total Operating Expenses	$ 41,069	$ 36,906

8 Commitments and Contingencies

Letters of Credit – At December 31, 2006, the Association had outstanding letters of credit for $26.5 million, $3.4 million of which is a designated reserve that is required by the International Group Pooling Agreement.

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

Asbestos-Related Claims	2006	2005
Aggregate gross losses paid to date at December 31	$5,830	$5,832
Loss reserves - reported	316	317
Loss reserves - unreported	—	—

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

In May 2004, the Association's Board of Directors resolved to terminate the prior discretionary practice of paying unreported, unreserved or under reserved occupational disease claims on closed policy years prior to February 20, 1989. In June 2004, the Association filed a Declaratory Judgment action against all former Members in the insurance years before February 20, 1989 seeking to terminate its discretionary practice of paying unreported, unreserved or under reserved occupational disease claims belatedly asserted as arising in the long closed years before February 20, 1989. Discovery was completed in July 2006 and the parties are awaiting a trial date.

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

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

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

In March 2004, suit was commenced against the Association by a former agent in Greece seeking allegedly unpaid commissions. The Association responded by filing a motion to stay litigation in New York pending arbitration in London pursuant to an agreement between the parties. In June 2006, it was reported that the former agent perished in a boating accident. In August, 2006 the claims were dismissed by the London Arbitrator and no appeal has been filed.

9 Related Party Transactions

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

Also on December 31, 2001, the Association subsequently sold its interest in SCB to Eagle Ocean Management, LLC ("EOM"), a related party to SCB. No gain or loss was recorded as a result of these transactions. The Association maintained a promissory note receivable of $253,431 from EOM as of December 31, 2005, which was paid in full during 2006.

As discussed in Note 1, the Association and other members of the International Group established a segregated cell captive captive insurance company (Hydra) during 2005. The Association cedes certain business to its cell within Hydra. The results of the Hydra cell are consolidated with those of the Association, with intercompany balances being eliminated.

10 Statutory Filings

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

The principal differences affecting the Association are described below:

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

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

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

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

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

	2006	2005
Statutory surplus, as reported	$ 31,321	$ 8,729
Future assessments receivable up to difference between ultimate and present values of losses	(11,298)	(18,235)
Unbilled assessments, net	—	13,750
Nonadmitted assets	6,879	3,827
Carrying value of applications software and consultants' fees	1,852	1,776
Provision for reinsurance	3,256	2,834
Allowance for doubtful accounts	(575)	2,507
Unrealized gain on available-for-sale securities	(369)	(455)
Hydra consolidation adjustment	514	196
Members' equity on the basis of Generally Accepted Accounting Principles	$ 31,580	$ 14,929

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

11 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 2003/04 policy year was closed on June 30, 2006, without further calls.

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

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

Development of Open Policy Years

	2004-05	2005-06	2006-07
Income:			
Calls and premiums - net	$ 127,217	$ 130,601	$ 96,339
Supplementary calls debited - net	—	13,183	12,447
Provision for estimated future calls	—	—	—
Investment income	3,406	3,497	2,155
Total income	130,623	147,281	110,941
Expenses:			
Net paid losses	48,044	43,107	8,095
Net pending losses	45,070	66,712	65,251
Undiscounted IBNR	1,000	7,679	17,603
Reinsurance premiums	8,524	10,927	10,345
Other operating expenses	15,267	17,981	16,927
Total expenses	117,905	146,406	118,221
Retained earnings	12,718	875	(7,281)
Contingency fund transfers	—	—	—
Unrealized investment gain	—	—	—
Members' Equity : Open Years	$ 12,718	$ 875	$ (7,280)

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

2004/05	$ 10,364
2005/06	$ 10,476
2006/07	$ 10,120

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

(c) For the 2006/07 policy year calls and premiums are stated on an earned basis to December 31, 2006. Expenses are stated on an accrued basis for the same period.

	2004-05	2005-06	2006-07
Claims Outstanding (including IBNR) - Open Years			
Gross outstanding claims			
Members's claims	$ 44,894	$ 80,454	$ 93,904
Other Clubs' Pool claims	3,084	4,192	5,405
	47,978	84,646	99,309
Reinsurers' share of outstanding claims			
From the Group excess of loss reinsurance	—	—	—
From the Pool	376	883	16,134
Other reinsurers	1,532	9,372	321
	1,908	10,255	16,455
Net Outstanding Claims	$ 46,070	$ 74,391	$ 82,854

Development of Closed Policy Years and Contingency Fund

	2006	2005
Closed years' balance, January 1	$ —	$ —
Total income earned	4,057	2,565
Net paid losses	12,641	11,324
Net pending losses	(10,571)	(6,923)
Unreported losses (IBNR)	(1,950)	(600)
Reinsurance premiums	(20)	664
Other operating expenses	3,515	4,098
Total expenses incurred	3,615	8,563
Unrealized investment gains	1,598	(434)
Transfer from closed policy year 2003/04	1,017	—
Transfer from closed policy year 2002/03	—	(215)
Transfer from closed policy year 2001/02	—	—
Net change	3,057	(6,647)
Transfer from contingency fund	(3,057)	6,647
Closed years' balance, December 31	$ —	$ —
Contingency fund balance, January 1	$ 22,210	$ 27,766
Transfer from (to) policy year 2003/04	—	1,091
Transfer to closed policy years	3,057	(6,647)
Contingency fund balance, December 31	25,267	22,210
Open policy years' equity		
2003/04	—	2,409
2004/05	12,718	5,689
2005/06	875	(15,379)
2006/07	(7,280)	—
Total Members' Equity	**$ 31,580**	**$ 14,929**
Claims Outstanding (including IBNR) - Closed Years		
Gross pending losses		
Members's claims	$ 46,100	$ 35,695
Other Clubs' Pool claims	4,281	3,880
	50,381	38,575
Pending reinsurance recovery		
From the Group excess of loss reinsurance	1,497	—
From the Pool	—	1,218
Other reinsurers	8,559	8,592
	10,056	9,810
Net Pending Losses	$ 40,325	$ 29,765

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

12 Leases

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

On January 1, 2002, the Association assumed the noncancelable operating lease for its previously occupied offices that is due to expire August 1, 2010. On August 1, 2006, the Association entered into a sublease agreement with a subtenant. The sublease calls for a monthly rental amount of approximately $27,450 until July 31, 2007, with annual increases until July 31, 2010.

Rental expense for 2006 was approximately $564,000. Future minimum rental payments are as follows:

Year	Amount
2007	1,154
2008	1,154
2009	1,153
2010	988
Thereafter	4,952
Total	$9,401

13 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, 2006.

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, 2006 the ratio of 12.8% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 13.1% recorded for the five years ended December 31, 2005, a decrease of 0.3%.

UNAUDITED SUPPLEMENTAL SCHEDULE

STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005

IN THOUSANDS	December 31 P&I 2006	December 31 P&I 2005	December 31 FD&D 2006	December 31 FD&D 2005
Income:				
Net premiums and assessments earned	**$ 145,266**	$ 144,541	**$ 6,890**	$ 6,365
Net investment income	**5,261**	3,834	**250**	169
Realized investment gain	**4,887**	2,049	**232**	91
Total Income	**155,414**	150,424	**7,372**	6,625
Expenses:				
Losses and loss adjustment expenses incurred	**101,657**	132,937	**4,855**	6,757
Other operating expenses	**39,209**	35,349	**1,860**	1,557
Total Expenses	**140,866**	168,286	**6,715**	8,314
Income (Loss) Before Income Taxes	**14,548**	(17,862)	**657**	(1,689)
Provision for income taxes	**(144)**	(48)	**(7)**	(2)
Net Income (Loss)	**14,404**	(17,910)	**650**	(1,691)
Other Comprehensive Income, Net of Tax:				
Unrealized gains on investments	**1,525**	(416)	**72**	(18)
Other comprehensive income	**1,525**	(416)	**72**	(18)
Comprehensive Income (Loss)	**$ 15,929**	$ (18,326)	**$ 722**	$ (1,709)

UNAUDITED SUPPLEMENTAL SCHEDULE

LOSSES AND REINSURANCE RECOVERABLE
YEARS ENDED DECEMBER 31, 2006 AND 2005

	DECEMBER 31	
IN THOUSANDS	**2006**	2005
Net Claims Paid		
Gross claims paid		
Members' claims	**$ 95,486**	$ 71,812
Other Clubs' Pool claims	**5,287**	5,385
	100,773	77,197
Recoveries on claims paid		
From the Group excess of loss reinsurance	**4,305**	2,897
From the Pool	**8,149**	—
Other reinsurers	**8,405**	7,828
	18,859	10,725
Net Claims Paid	**$ 81,914**	$ 66,472
Change in Net Provision for Claims		
Claims outstanding		
Members' claims	**$ 265,351**	$ 229,231
Other Clubs' Pool claims	**16,963**	13,318
	282,314	242,549
Plus reinsurance recoverables		
From the Group excess of loss reinsurance	**1,497**	3,247
From the Pool	**17,394**	4,661
Other reinsurers	**19,783**	15,599
	38,674	23,507
Net claims outstanding at December 31	**243,640**	219,042
Net claims outstanding at January 1	**219,042**	145,820
Change in Net Provision for Claims	**$ 24,598**	$ 73,222

BOARD OF DIRECTORS

(as of June 1, 2007)

PAUL SA, Chairman (Standard Shipping, Inc.)

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

VASSILIOS BACOLITSAS (Sea Pioneer Shipping Corp.)

LAWRENCE J. BOWLES, (Nourse & Bowles, LLP)

KEITH DENHOLM (Pacific Carriers Limited)

KENNETH T. ENGSTROM (International Shipping Partners)

GEORGE D. GOURDOMICHALIS (Free Bulkers S.A.)

ROBERT A. GUTHANS (R G Company, LLC)

CHIH-CHIEN HSU (Eddie Steamship Company, Ltd.)

MARKOS K. MARINAKIS (Marinakis Chartering Inc.)

HARIKLIA N. MOUNDREAS (Good Faith Shipping Company S.A.)

MICHAEL L. MURLEY (Martin Resource Mgmt. Corp.)

MARTIN C. RECCHUITE

KATIA RESTIS (Enterprises Shipping & Trading S.A.)

STEVEN T. SCALZO (Marine Resources Group, Inc.)

GEORGE VAKIRTZIS (Polembros Shipping Limited)

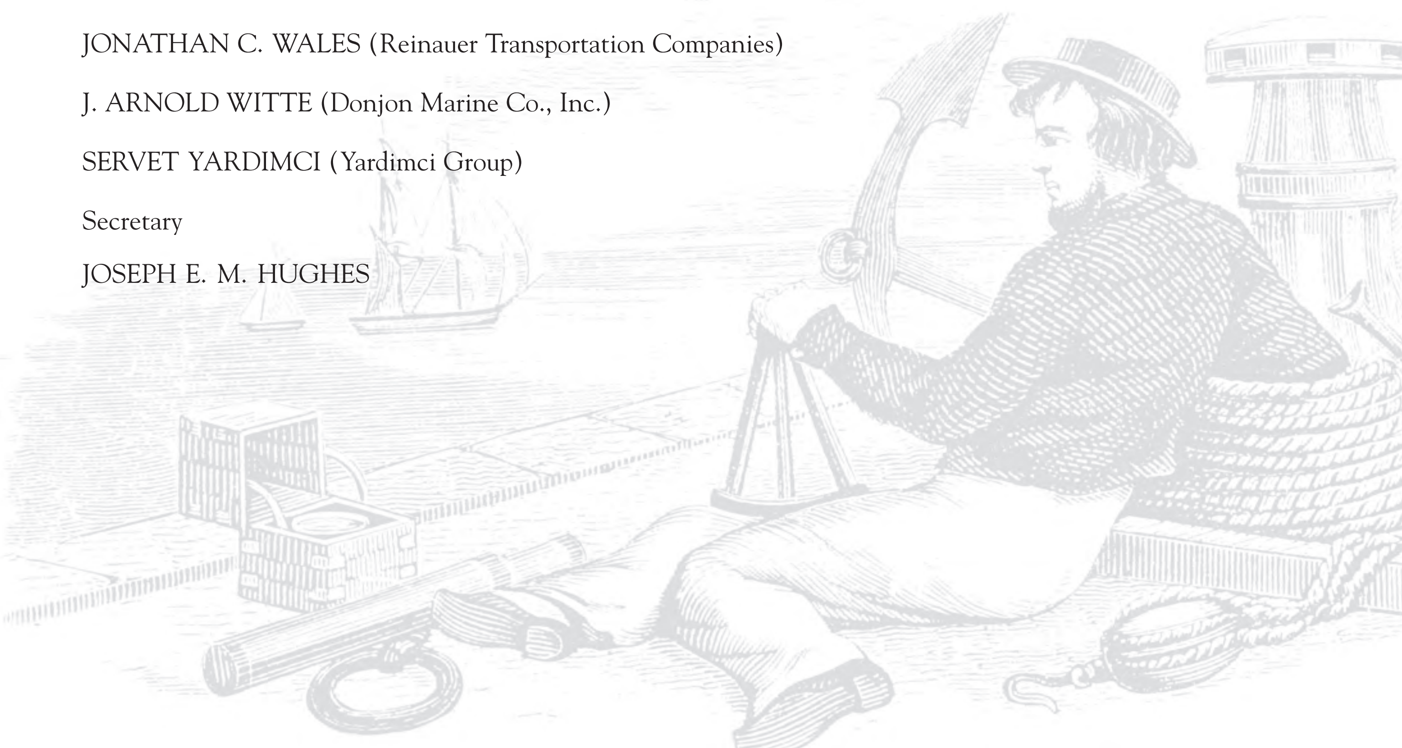
JONATHAN C. WALES (Reinauer Transportation Companies)

J. ARNOLD WITTE (Donjon Marine Co., Inc.)

SERVET YARDIMCI (Yardimci Group)

Secretary

JOSEPH E. M. HUGHES



AMERICAN STEAMSHIP OWNERS MUTUAL PROTECTION & INDEMNITY ASSOCIATION, INC.

SHIPOWNERS CLAIMS BUREAU INC., MANAGER

Shipowners Claims Bureau, Inc.
One Battery Park Plaza - 31st Floor
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Fax: +1 212 847 4599
Email: info@american-club.net
Website: www.american-club.com

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Fax: +44 20 7709 1399

Shipowners Claims Bureau (Hellas), Inc.
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THE AMERICAN CLUB