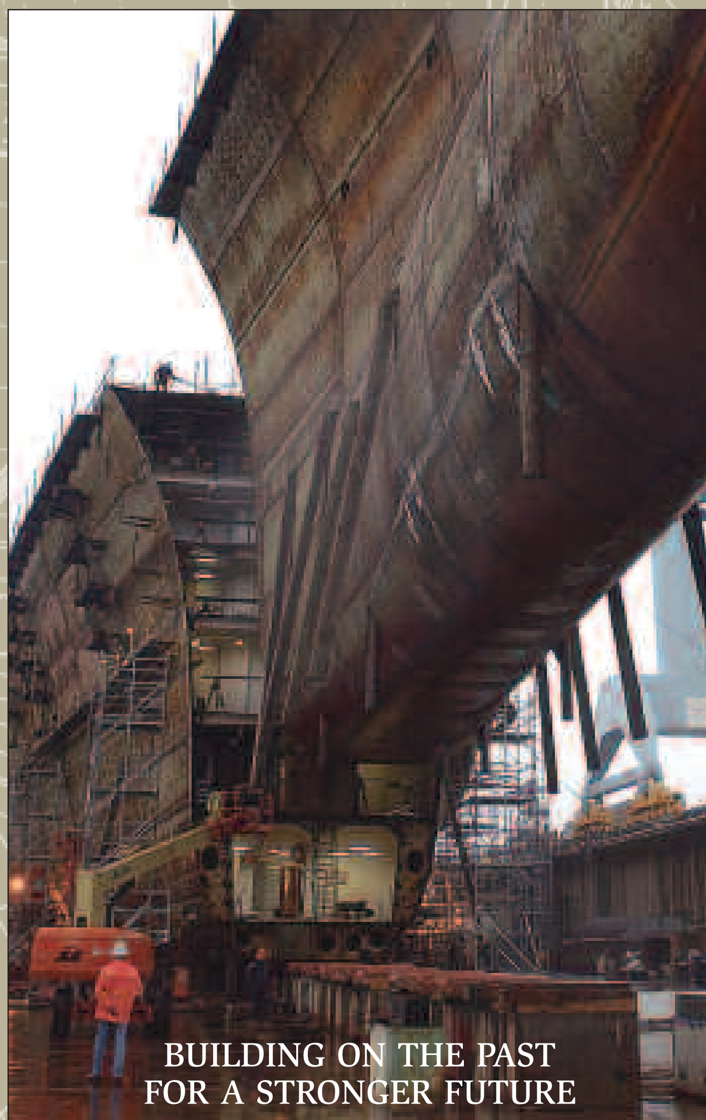
THE AMERICAN CLUB 2005 ANNUAL REPORT



BUILDING ON THE PAST
FOR A STRONGER FUTURE

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HIGHLIGHTS

- 2005 renewal uneventful: small gain in tonnage but gross annualized premium rises to nearly $150 million.
- Club wins industry recognition within days of renewal: collects 2005 Lloyd's List P&I / Insurance Services Award.
- Tonnage grows steadily: 21.7 million entered tons at outset rises to nearly 23 million at close: profiles of vessel type and management domicile remain broadly constant.
- Policy years 2001 and 2002 respectively closed without further call, but deterioration in results for 2003 policy year prompts additional supplementary call in 2006.
- Funds under investment grow markedly reaching record levels, aided by strong cash flow.
- Claims incidence increases at measured pace, but commodity price inflation and other factors provoke growth in average values, particularly in cargo sector.
- Member service capabilities enhanced by opening of Managers' office in Piraeus in May 2005: has major impact from start.
- Loss prevention initiatives continue energetically: ***Shipboard Safety*** booklet published and poster series commenced: survey program develops robustly: pre-employment medical screening expanded.
- Directors order 10% increase in both rating and deductibles for 2006, plus any uplift in reinsurance cost: International Group's program sees only 6% rise despite Katrina: Hydra completes first year of operation.
- Renewal at February 20, 2006 features small tonnage decline year-on-year: losses marginally exceed gains: some tonnage not renewed after rigorous analysis of risk.

2005 was a year of progression. It began with a modest increase in tonnage but a substantial rise in premium. Progress was made in several areas as the year developed. A highlight was the opening of the Managers' office in Greece, enhancing service capabilities both there and in other points East. Loss prevention initiatives gained momentum, both materially and in terms of human resources. Funds under investment continued to enjoy outstanding growth. IT systems underwent improvement as new capacity was added to the existing base. The 2006 policy year opened to further rationalization of the underwriting portfolio. While the liability climate remains unprecedently difficult, the American Club has never been better equipped to rise to emerging challenges, building on the past for an even stronger future.

Greek Trireme. 5th Century BCE.

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, 2005.

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 16, 2005. At that meeting, Mr. Paul Sa of Standard Shipping, Inc. was re-elected as Chairman. Mr. James P. Sweeney of Penn Maritime, Inc. was re-elected as Deputy Chairman. Mr. Lawrence J. Bowles was re-appointed as General Counsel to the Club and Mr. Joseph E.M. Hughes, the Chairman and CEO of the Managers, was re-appointed as Secretary.

In addition, the following gentlemen were elected as new Directors: Mr. Calvin W.S. Cheng of Eastmark Associates, Inc., New York; Mr. Samuel A. Giberga of Hornbeck Offshore Services Inc., Covington, Louisiana; Mr. George D. Gourdomichalis of Free Bulkers S.A., Piraeus; Mr. George Vakirtzis of Polembros Shipping Limited, Piraeus; and Mr. J. Arnold Witte of Donjon Marine Co., Inc., Hillside, New Jersey. They were welcomed most warmly to the Board, in anticipation of their making a great contribution to the Club's affairs over the years to come.

At the same meeting the Board noted with regret the resignation of Mr. Robert A. Agresti of P&O Nedlloyd Limited and the retirement of Mr. David L. Gare of PSL Marine Limited. The Board took the opportunity of recording its thanks to 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 2005. Aside from the Annual Meeting, the Directors met on one other occasion in New York. The Spring meeting of the Board was held in Mobile, Alabama while the fourth, and last, meeting of the year was held in Paris 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 liaison office and the establishment of a similar capability in Greece.
- Development of the Club's new IT system.
- Club publications.
- Meetings of Managers of the International Group of P&I Clubs.
- Developments in regard to global shipping regulations.

The period under review saw the formal closing of both the 2001 and 2002 policy years, without further call in excess of latest forecasts, on March 31 and September 30, 2005 respectively.

In Club Circular No. 32/05 of December 7, 2005, Members were informed of a potential requirement for a call on the 2003 policy year in excess of the 20% of Advance Call already levied. 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.

In light of the deterioration of the year in question it was decided at the Board meeting in March 2006 that a further 30% of Estimated Total Premium be levied in respect of 2003, the additional Supplementary Call thus generated to be payable in two equal installments on July 20 and October 20, 2006.

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, the need to maintain decent levels of capitalization remain paramount. However, it should be noted that 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 the prior year in regard to the publication of an easy-to-read booklet entitled ***Preventing Fatigue*** was repeated in the form of a further booklet called ***Shipboard Safety.*** Again, this document was widely

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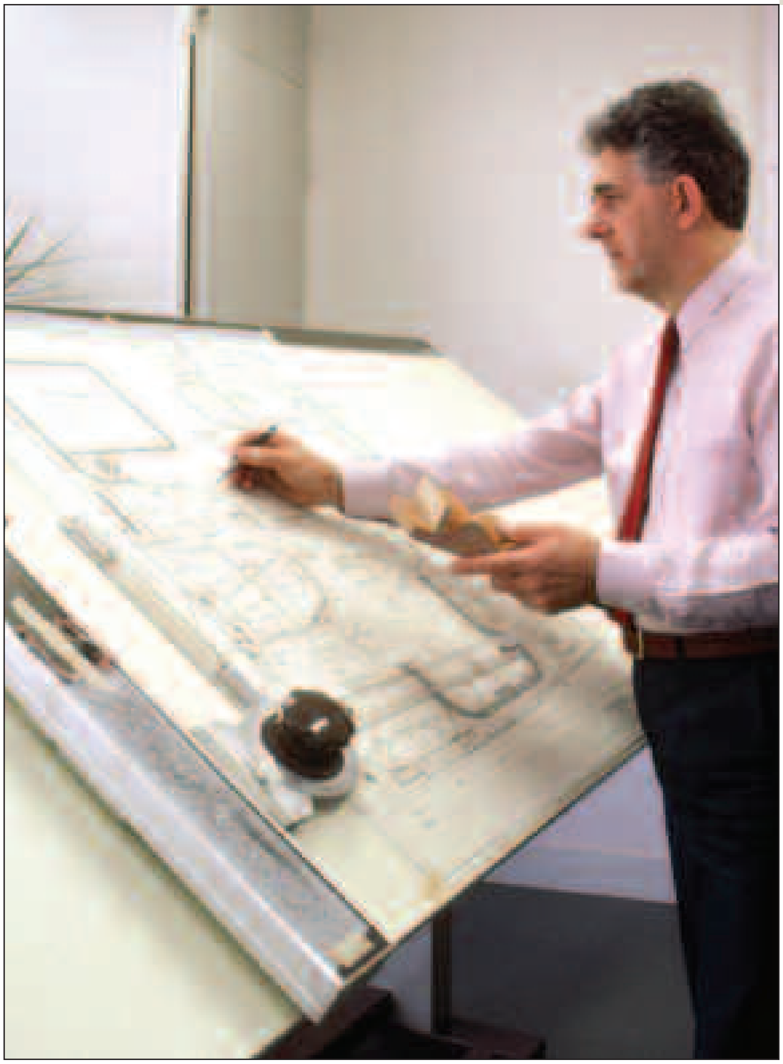
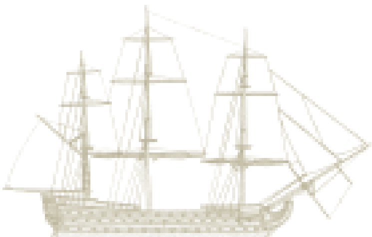




Royal Naval Ship-Of-The-Line. Late 18th Century.

distributed for both shipboard use and for reference ashore. Moreover, in conjunction with each, a series of posters highlighting safety and best practice in avoiding accidents at sea was 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 into other parts of the former Soviet Union. These decisions are described in greater detail in the Report of the Managers.

On the investment front, the Finance Committee continued to review the Club's strategy and received regular reports from the Club's investment advisors in order to monitor the optimum posture for the commitment of the Club's funds. Toward year-end it was decided to restructure the manner in which investments were managed and a redeployment of the Club's assets – which had grown substantially during the previous eighteen months – was achieved following the appointment of Merrill Lynch as advising intermediary between the Club and individual fund managers.

At the Board meeting in Paris in November 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. Among other things, it would consider claims development on recent policy years, recent court decisions, the development of International Group pool claims. Its first meeting took place in March, 2006.

Another highlight of the year was the establishment of the Managers' subsidiary office in Greece, Shipowners Claims Bureau (Hellas) Inc. Situated in the heart of Piraeus' thriving maritime community, the new office – which became fully operational in May, 2005 – has greatly amplified the services available to the Club's membership in Greece, the Eastern Mediterranean and beyond.

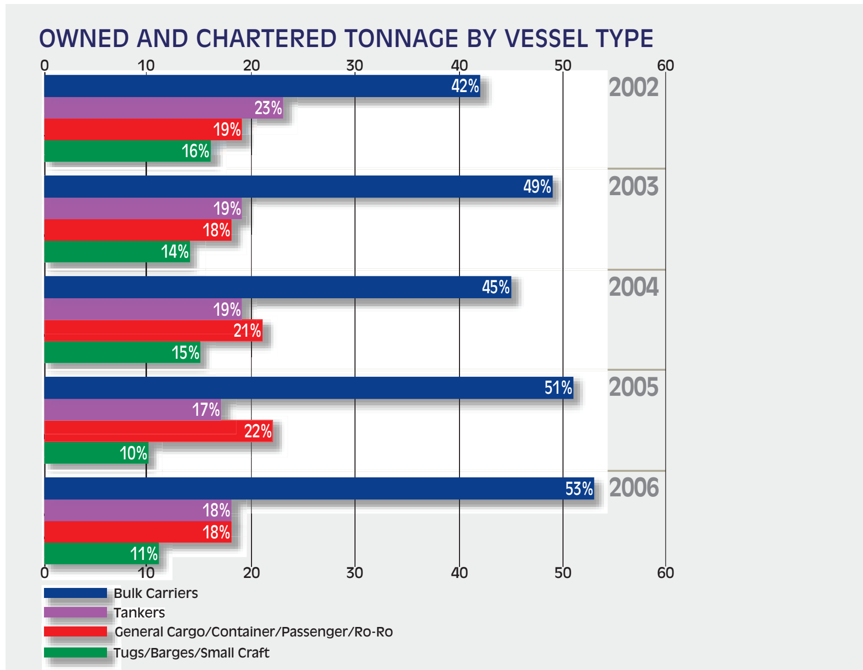
In closing, the Directors thank the Members for their continuing support of the Club. Thanks are also due to the many others who worked hard in 2005 to progress its aims in a continuingly difficult environment for the P&I sector in general. Despite a less than encouraging outlook for the market as a whole, 2005 was again a year of achievement.

As mentioned in last year's Annual Report, the period under review began with the Club winning the Lloyd's List P&I Insurance Services Award for 2005 which, following on the heels of a successful renewal, was a cause for celebration indeed.

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 remains 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. Building on the past, it looks forward to an even stronger future.

2005 was another year of progress for the American Club despite the relentless emergence of new challenges to the P&I industry as a whole.



Against a background of rising premium and substantially growing funds under investment, the Club nonetheless confronted an increasingly difficult claims and regulatory climate, the former being a function of a still buoyant freight market and high commodity prices, and the latter aggravated by the increasing politicization of marine liabilities, especially those concerning pollution.

In this context, the need to obtain sensible underwriting results through realistic rating and the careful monitoring of vessel quality has never been greater. During 2005 much progress was made in this direction, a growing emphasis on loss prevention being an important factor in seeking to achieve respectable results.

Entered Tonnage, Underwriting and Reinsurance

The 2005 renewal once again saw growth in entered tonnage, but at a more modest level than that which characterized earlier years. Net gains exceeded losses by about 600,000 gross tons so as to generate a renewing entered tonnage of approximately 21.7 million gross tons as of February 20, 2005. This resulted in a further increase in net written premium for the year comfortably in excess of $130 million – some 10% greater than had been the case the year before.

A substantial part of the increase in premium was attributable to the Directors having ordered a 10% general increase on expiring rates for 2005. As in the case of the previous year, the Board also determined that the Advance Call for all classes of mutual business should represent the Estimated Total Premium for the year – i.e. there should be a zero Supplementary Call forecast at its commencement. The consequent cash flow benefit for the Club contributed to the increase in its funds under investment during the year. This paradigm of premium collection has been continued into 2006.

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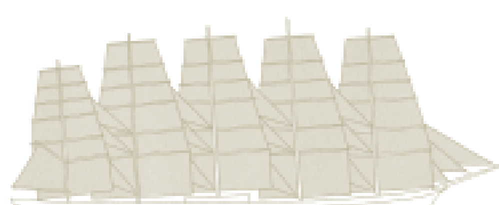

Five-Masted Barque. Mid 19th century.

The February 20, 2006 renewal featured a further general increase of 10% on expiring premiums as well as an increase in deductibles. While the loss of tonnage at the renewal somewhat exceeded gains, a rate per ton increase of approximately 15% was achieved across the renewing portfolio, inclusive of some re-rating of certain significant entries.

The overall increase in premiums on expiring tonnage was closer to 8%.

As to the prescribed increase in deductibles, it is pleasing to note that significant uplifts were indeed obtained where appropriate so as to achieve a more realistic balance of exposure as between Member and Club in individual cases.

So far as the analysis of the Club's membership by way of vessel type is concerned, the proportion of entries attributable to owners' and charterers' insurances, as well as its breakdown by reference to management domicile, relevant information is set out in the tables on pages 11 and 14 respectively.

The Club's reinsurance arrangements during 2005 remained essentially unchanged from those of 2004 save that the International Group's new Bermuda-based segregated cell captive, Hydra Insurance Company Limited, commenced operations as of February 20, 2005.

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

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

Hydra aside, the major change to the International Group's arrangements 2005 was the increase in individual club retentions from $5 million to $6 million. This level of retention has been maintained for the 2006 policy year. As to the structure of the reinsurance program, the familiar four-layered design (in cumulative tranches of $500 million each) has been maintained, providing a total of $2.05 billion cover for non-oil pollution risks and $1.05 billion for oil pollution cover.

The price of the cover for 2006 was approximately 6% greater than that which obtained during the previous policy year. The ability to limit the rise to this figure, given the enormous pressure placed upon reinsurers' balance sheets by the losses incurred through hurricanes Katrina and Rita, speaks to the consistently good record which the International Group has been able to maintain on this contract over the years. However, as was the case at the 2005 renewal, there was some marginal reallocation of rating across vessel categories. The US Oil Pollution Voyage Surcharge underwent a small reduction of 5% in 2006 following the 7.5% allowed in 2005.

While the limit on cover for oil pollution claims is subject to a prescribed, liquidated figure of $1.05 billion, cover for non-oil pollution claims beyond the $2.05 billion limit purchased by the Group in the commercial markets is subject to additional funding in what is commonly referred to as the "overspill layer" shared by all Group clubs by way of a pooling arrangement.

Contribution to this overspill layer is assessed by reference to a formula based on the valuation of fleets entered in Group clubs at an agreed percentage of their aggregate limitation funds calculated by reference to the 1976 London Convention. Since 1995, overspill funding has entailed individual clubs' contributions not exceeding 2.5% of the total limitation value of their entered tonnage assessed in accordance with the Convention.

In the mid-1990's this connoted an overall overspill layer of some $2.25 to $2.5 billion over and above the limit of the Group's reinsurance cover for non-oil pollution claims or, approximately, $4.25 to $4.5 billion in total.

During the period under review, the Group decided to revisit this figure in light of the expansion of the world fleet during the intervening decade and the relative devaluation of the US Dollar against the Special Drawing Right (SDR) in respect of which the primary calculation of such limits is made.

In the result, it emerged that the theoretical total value of the overspill layer as of mid-2005 had risen to approximately $3.35 billion over and above the limit of commercial reinsurance for non-oil pollution claims, implying an overall limit of approximately $5.35 billion.

The question then arose as to whether the relevant percentage for the calculation of the overspill layer should remain at 2.5% of total limitation funding or be reduced to a figure (of 1.65% or thereabouts) so as to maintain the limit of cover, including the overspill layer, as that originally envisioned in the mid-1990's i.e. $4.25 to $4.5 billion.

Following discussion within the International Group, a majority view emerged in favor of keeping the 2.5% benchmark, although it was recognized that this would remain under review as market circumstances might demand.

As to the protection of the American Club's retained claims for 2005 this, as described in last year's Managers' Report, entailed an increase in the level of exposure reinsured in excess of $2 million any one claim as a result of the uplift in individual clubs' retentions from $5 million to $6 million i.e. the total reinsured layer was increased to $4 million from $3 million. The expiring structure has been retained for the 2006 policy year.

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Great Eastern, length 692ft. Built in 1858.

A schematic of the Club's reinsurance arrangements through its participation in the International Group scheme is set out to the right.

Supplementary Calls

The period under review saw the formal closing of both the 2001 and 2002 policy years on March 31 and September 30, 2005 respectively.

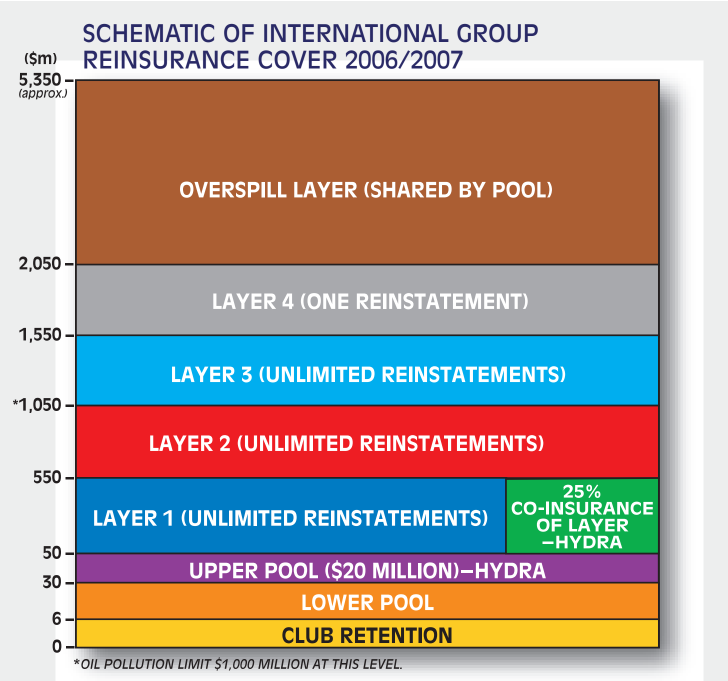
Toward the end of 2005 it became clear that the deterioration of the 2003 policy year, which had originally begun to show itself a little over twelve months previously, was, after careful analysis of open claims and further actuarial advice, unlikely to improve. This suggested that a supplementary call for that year in excess of the original forecast might be required.

Accordingly, in Circular No. 32/05 of December 7, 2005, Members were informed of a potential need for a call on 2003 in excess of the 20% of Advance Call already levied.

In the result, following further analysis of policy year development undertaken during the first quarter of 2006, it was decided at the meeting of the Directors which took place in March, 2006, that an additional call calculated as a further 30% of Estimated Total Premium be levied in respect of 2003, the Supplementary Call thus generated to be payable in two equal installments on July 20 and October 20, 2006, the intention being that the year be formally closed as of June 30, 2006 without further call.

It has been a source of regret both to the Directors and the Managers that this additional call should have been required, but having considered the use of the Club's contingency fund to eliminate at least part of the policy year's deficit, the Board decided that this would not be in the best interests of the Club's plan to build capital to a more desirable level. It therefore followed that the Supplementary Call for 2003 as described above would be the necessary, albeit regrettable, course of action. The details of the requirement were notified to the Members in Circular No. 10/06 of April 12, 2006.

As to the 2004 policy year, it is pleasing to note that it remains in surplus, although the original projections have diminished somewhat due in part to the American Club's share of higher than expected International Group Pool losses incurred by other clubs. Nevertheless, confidence remains that 2004 will close in surplus without the need for additional Supplementary Calls.



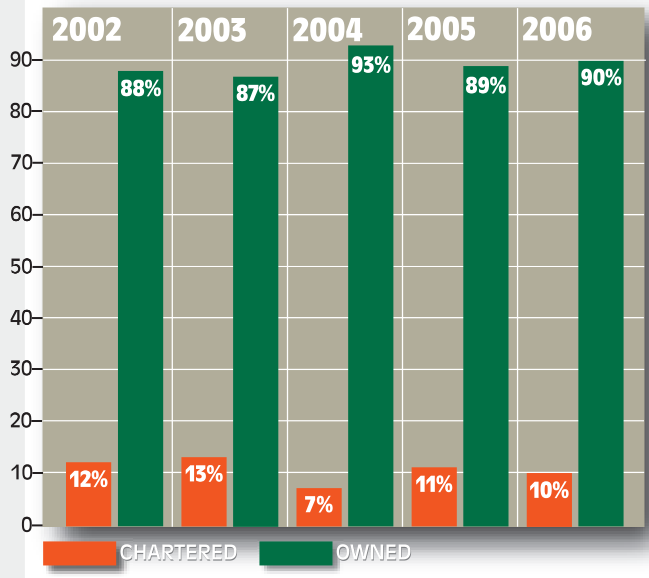
During 2005, the Club continued to consolidate its portfolio by eliminating less profitable tonnage and originally expected a technical underwriting surplus along the lines of the previous policy year. However, owing in part to Hurricane Katrina wreck removal claims in excess $8 million, an increase in the value of cargo claims as a result of mounting commodity prices, as well as a more conservative loss reserving policy resulting in higher year-end IBNR values, the Club will be reporting a deficit of approximately 14% of total income at December 31, 2005.

It is, of course, much too soon to determine the final position in regard to this year, but the Club's increased investment portfolio of more than $194 million could well generate sufficient return so as to balance the policy year before it is closed while, at the same time, adding to surplus.

Finance and Investments

Under the oversight of the Finance Committee, the two developments during 2005 of greatest significance to the Club's future performance in the investment sphere were the continuing expansion of its portfolio as well as, toward year-end, the appointment of an advising intermediary between the Club and its individual fund managers.

SPLIT BETWEEN OWNED AND CHARTERED ENTRIES



As to the former, cash and funds under investment grew from about $140 million at year-end 2004 to approximately $194 million at December 31, 2005, an increase of about 39%. This was a function of strong cash flow, a trend which has maintained itself into 2006, thus continuing to grow the investment book. Moreover, taken over a longer time period, fund growth has been even more impressive: from year-end 2003 to the equivalent point in 2005, funds under investment more than tripled.

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 insuring broader scope for improving the results of individual policy years – has never been greater. And, with larger funds with which to work, arguably more rewarding options by way of diversification into different markets – including those overseas – have been made more attractive to the Club than was previously the case.

Accordingly, in order to secure the maximum benefit from the considerable expansion of invested funds, it was decided toward the end of the period under review to appoint Merrill Lynch to perform a complete reassessment of the Club's investment posture and, having accomplished this, redeploy its funds with the aim of achieving a better return than previously, acting as advising intermediary between the Club and its individual fund managers.

Turning to the markets themselves, volatility in the US equity sector was remarkably low in 2005. This may have been due to investor complacency about risk. Others believe that business and economic conditions have simply become more stable over time. In the result, by reference to an index calculation which includes dividend reinvestment, the S&P 500 exhibited a return of 4.9% during the year.

Although more volatile – chiefly within emerging markets – global equities showed greater returns. The MSCI World Index grew by 9.5% during 2005.

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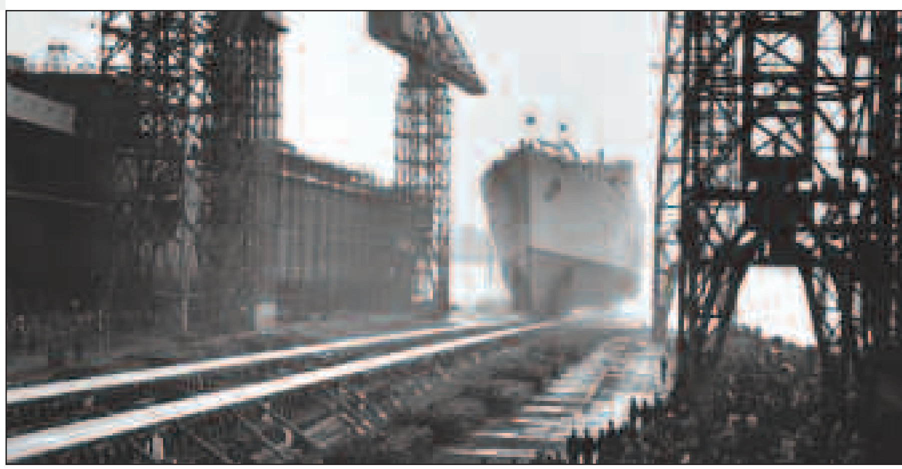
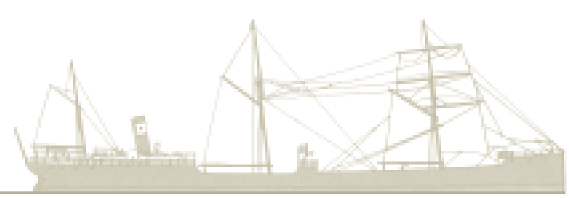
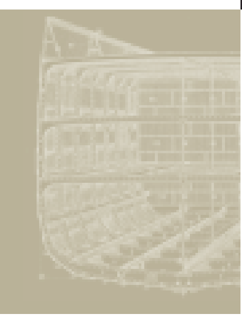




Early Steam Tanker. Late 19th Century

A total performance of this order ranged in regional terms from the 23% increase in the MSCI Pacific Index to the 9.9% rise in the equivalent index for European equity investments.

As to the fixed income markets, although there was a significant spread of return as between the different



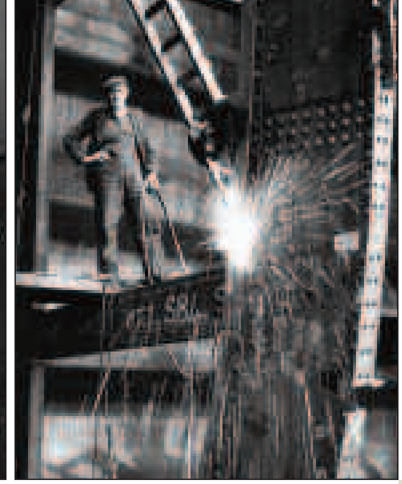
investment sectors during 2005, ranging from the 7.4% seen in long-term Treasury obligations to the minus 0.3% experienced by convertibles, the fourth quarter for all sectors posted roughly the same, somewhat declining, returns as market participants considered the Federal Reserve's monetary policy signals and the inversion of the short-to long-term securities' yield curve.

Corporate spreads – which measure the difference between corporate bond yields and those of safer Treasury investments – remained at historic lows during the period under review, indicating that even well-publicized troubles at some companies had not shaken the market's appetite for risk.

The performance of municipal bonds was largely positive during 2005 and, on an after-tax basis, superior to those with taxable returns. As in the case of Treasuries, the municipal yield curve also flattened during the last quarter of 2005, with the spread between the one and thirty year obligations narrowing from 1.6% to 1.2%.

Nevertheless, the municipal yield curve remains steeper than that characterizing Treasuries, attracting investments to the municipal market (in respect of which the American Club has long been a supporter, in large measure for the tax reasons alluded to above). So far as the commitment of the American Club's funds by way of different instruments is concerned, the investment guidelines established by the Board on the advice of the Finance Committee – aimed first and foremost at capital preservation – continued to be followed during 2005. The balance between cash/fixed income securities and equities was, at year-end, approximately 75%/25% respectively.

As to sector performance, the Club's return on equities (including unrealized gains) was 7.65% at year-end compared with the S&P 500 benchmark figure of 4.9% mentioned above. The fixed income portfolio produced a return of 1.9% by comparison with the 0.5% achieved by the comparable Lehman Bros. Index for similar investments. On a blended basis, the American Club's book produced an overall return, inclusive of unrealized gains, of 3.40% compared with, by way of blended benchmarks, approximately 1.6% for the market overall.



Claims

2005 saw the continuing expansion of the American Club's claim handling capabilities. A highlight was the opening of the Managers' subsidiary office in Greece, Shipowners Claims Bureau (Hellas) Inc. Situated in the heart of Piraeus' thriving maritime district, the new office – which became fully operational in May, 2005 – has greatly amplified the claims handling services available to the Club's membership in Greece, elsewhere in the Eastern Mediterranean and beyond.

In addition, human resources were expanded both in New York and in London through the acquisition of professional claims staff in both locations.

In last year's Annual Report mention was made of the ultimately successful conclusion of the TASMAN SPIRIT case which had led to the confinement in Karachi, Pakistan of seven of the vessel's crew along with the original salvage master.

While the release of the "Karachi Eight" was reward enough to those in the Club handling the matter, it was nonetheless pleasing that the Club collected the 2005 Lloyd's List P&I / Insurance Services Award in recognition of the Club's success in dealing with this difficult case and, in particular, obtaining the release of the "Karachi Eight".

Claims volumes in 2005 were commensurate with the slight increase in tonnage which occurred at the renewal of the year in question. However, there were a number of significant claims in 2005 – including 37 claims in excess of $500,000 and 14 in excess of $ 1 million. In total, some 3,600 claims – including pre-loading surveys and other precautionary measures – will have been recorded at the time the year eventually comes to be closed. This -compares with about 3,300 for the 2004 policy year.

The results for 2005 were negatively affected by a number of wreck removal claims in the aftermath of Hurricane Katrina. In total, 20 such claims have so far been notified with a total incurred value of some $8 million. It is anticipated that these will prove to be of a non-recurring nature. Also, and regrettably, many of these claims were reported months after Katrina due to the severe disruption to normal business in the region caused by the hurricane.

In regard to more routine claims at the attritional level, 2005 saw a balance as between claims type largely in conformity with those of previous years. About 24% (by value) of incurred claims as at year-end 2005 related to cargo incidents (2004 – 27%) with a broadly equivalent percentage relating to death and injury claims. This was 25% (not inclusive of IBNR) for 2005 (at a relatively undeveloped stage) compared with a more mature figure of 31% for 2004.

These two sectors, in common with the experience of other clubs, tend to form the largest areas of exposure year-on-year, other heads of claim showing a more volatile trend from one policy period to another. As to the average value of claims, mounting commodity prices have had a clear impact on typical cargo claims cost in recent years. In 2003, for example, the average cargo claim had an incurred value of $20,200. This rose to $36,600 in 2004 and to $42,700 in 2005, corresponding to a similar increase in the commodoties price increase.

Another area of claims cost inflation is that relating to stowaways. An average case value of $9,600 in 2002 had nearly doubled by 2005 to $18,900. This may primarily be a function of the tightening by coastal states most affected by stowaway problems of their detention procedures entailing a greater cost of local handling and repatriation of stowaways.

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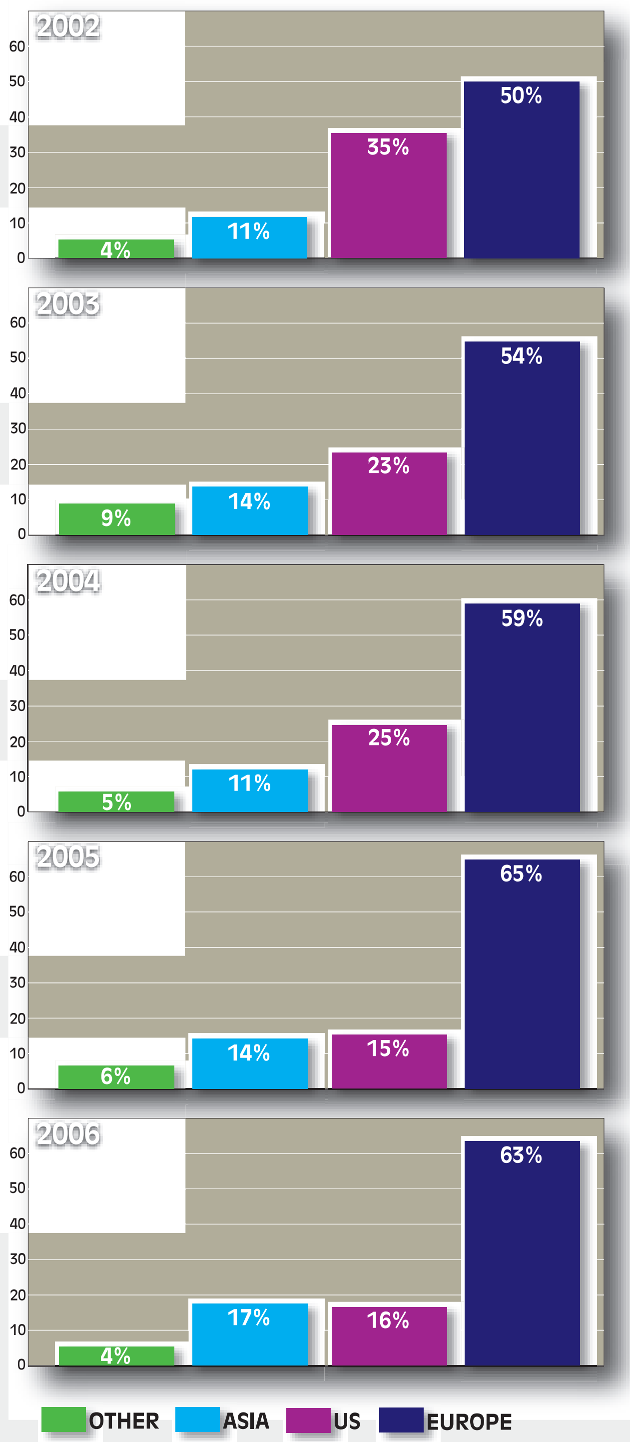
Oil Tanker. Mid 20th Century.

OWNED AND CHARTERED TONNAGE BY MANAGEMENT DOMICILE



For the 2005 and 2006 policy years, the convention of counting units of less than 1500gt at that figure by way of a minimum tonnage was discontinued. This has had the effect of markedly reducing the apparent proportion of the US entry in the Club in tonnage terms by comparison with earlier years.

Activity Within the International Group of P&I Clubs

Business conducted at International Group level continued vigorously throughout 2005, 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.

On the housekeeping front, Peek House Management Ltd took over the administration of the International Group, assuming, as a corporate entity, the functions previously handled by the unincorporated Secretariat. The directors of this new company are the existing members of the Group Panel, together with the Secretary, Andrew Bardot, a respected maritime lawyer, who succeeded Lloyd Watkins in this role in February 2006. In addition, the Group Secretariat has also expanded its capabilities with the recruitment of additional support staff. A Group website was also established during 2005 in order to make its general affairs more easily available to those with an interest in them. The website can be accessed at **www.igpandi.org.**

The International Group maintained its contact with the European Commission during 2005 – particularly with the Directorate General dealing with matters of competition within the Union. The circumstances of the last exemption granted to the Group in 1999 have undergone change by virtue of regulations promulgated by the Commission in 2004. The new provisions have the effect of making it legitimate for the International Group to continue in its present form after 2009. Following the European Commission's previously exhaustive examination of the issue, it would be difficult for a successful challenge to be mounted against a continuation of the status quo.

Following the decision by the European Commission to press for ratification of the 2002 Athens Convention across the member states of the European Union, the Group continued to develop a consensus on the three main issues to be resolved by clubs in order to ensure compliance.

The first issue concerned limits of liability and the amount of cover available. The Convention introduces strict liability for death and personal injury claims caused by shipping incidents, limited to SDR 250,000 per passenger. For death and personal injury claims not caused by shipping incidents, carriers would be liable in negligence up to a limit of SDR 400,000 per passenger. The Group had previously submitted that the appropriate limits should be SDR 100,000 per passenger as a strict liability and compulsory insurance limit, and SDR 350,000 per passenger as an overall limit.

The second issue related to certification. The Convention requires shipowners to provide direct action certificates in respect of the first SDR 250,000 per capita of any claim, with an overall liability exposure of SDR 400,000 per capita. Clubs would be required to issue Certificates of Financial Responsibility and to be subject to direct action. The Group has traditionally been opposed to providing direct action certificates.

Finally, in regard to liability for loss arising from terrorism, the Convention requires clubs to provide Certificates of Financial Responsibility covering terrorism, or terrorist-related risks, as well as Bio-Chem risks. Group clubs presently exclude cover for these risks.

Reports from within the International Group membership have indicated that so far that there is a majority of Clubs prepared to cover liabilities arising under the Convention and to provide the appropriate certification.

At the IOPC Fund Assembly in October 2005, the Group saw the successful culmination of several years' intensive diplomacy, when proposals to revise the levels of compensation for oil pollution available under the Civil Liability Convention (CLC) were officially dropped.

Only eleven States voted for the relevant working group to proceed with further revision; twenty-eight States voted to terminate its mandate altogether.

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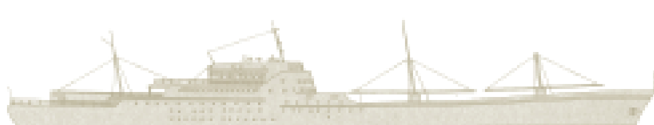


First nuclear powered merchant ship, N.S. Savannah. 1962.

Accordingly, the Assembly agreed to remove revision of the CLC compensation regime from its agenda. The key factor in reaching this decision was accepted to be the Group proposal to extend its Small Tanker Owners Pollution Indemnification Agreement (STOPIA) and Tanker Oil Pollution Indemnification Agreement (TOPIA) schemes to all CLC signatory states, thus ensuring a mechanism for achieving an overall 50/50 sharing in the cost of pollution claims between shipowners and oil companies.

The pooling of excess war risks was another important issue resolved by the Group in 2005. Unlike ordinary, non-war claims, excess war risks claims were not previously pooled by clubs, even though they were covered by a jointly-purchased reinsurance policy. In the event of the failure by a reinsurer to pay its share of a claim, the loss would therefore have had to be borne by the individual club whose member had suffered the claim. A proposal was approved by club boards that the Supplementary Pooling Agreement, which provided for the pooling of Bio-Chem claims in limited circumstances, should be utilized as the vehicle for the pooling of such claims in the future.

The growing incidence of piracy, kidnapping and ransom demands in South East Asian waters prompted an analysis of clubs' liability for paying claims arising from these risks. While it was generally accepted that piracy was a covered risk, the liability for settling kidnapping and ransom claims was less clear-cut. Moreover, these were more commonly covered by the commercial market.

After consultation, the International Group reaffirmed that piracy should remain within the scope of club cover and that ransom payments should be neither included nor excluded specifically, but that it might be appropriate in certain cases for such payments to be accepted on a discretionary basis.

Finally, as mentioned in an earlier section of this Report, Hydra Insurance Company Ltd, the International Group's self-insurance vehicle, completed a successful first year of operation. Based in Bermuda, Hydra functions as a segregated-cell captive insurer, covering 100% of the Group's P&I claims from US$ 30 million to US$ 50 million and 25% of claims up to US$ 500 million.

This milestone marked an important stage in the International Group's long-term strategy of reducing its reliance on market reinsurers and the overall cost of P&I insurance to its member clubs.

Safety and Loss Prevention

The Club enhanced its loss prevention and condition surveying initiatives during 2005. A particular emphasis was placed on building a stronger technical staff, improving survey procedures and building confidence to meet the challenges of providing prompt surveys and subsequent feedback to Members.

As to the surveying function, much activity took place. Some 424 surveys were undertaken during 2005. This represented a 70% increase in the number of surveys conducted during the previous twelve months, demonstrating a single-minded commitment to the continuous improvement of vessel standards across entered fleets.

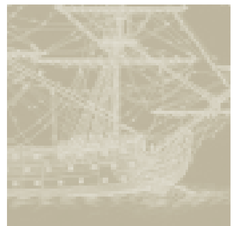
Changes in operational procedures within the loss prevention and technical services department resulted in a faster review and risk assessment process than was previously the case. For example, the normal maximum period between the receipt of a survey report and the issuance of a review letter to Members and their brokers is now normally less than one working week. This period is typically shorter when sea- or cargo-worthiness issues are raised by a survey. Details of such issues are now raised very early after survey with Members and brokers, as well as with the underwriter concerned who will thus have the opportunity to take appropriate steps should such details have implications for Club cover. In addition, a system of periodic following-up of review letters has been introduced, initially after 30 days. This proactivity enhances the effectiveness of the survey process and helps to reduce the length of time any defect warranties might be attached to cover.

The Club's survey report forms, accessible through its website, were reviewed and updated during 2005 and, from January 2006, contain greatly enhanced sections on passenger ships and LNG/LPG vessels derived from contributions from experts in their respective fields.

During the period under review, the Club concluded the second year of its Pre-Employment Medical Examination (PEME) program in the Ukraine and the Philippines. This initiative continues to be a substantial success. Moreover, a decision was made toward the end of 2005 that the PEME program should be mandatory as of February 20, 2006 and this was notified to the membership by Circular.

Additionally, the PEME program was expanded in the spring of 2006 to four additional countries where Members draw increasingly large numbers of shipboard labor: Latvia, Poland, Romania and Russia. It is expected that the program will be made mandatory for seafarers from these countries toward the end of 2006.

As to other initiatives, it is an obvious truth that shipboard safety, security and environmental protection are key elements in preventing claims. The communication of appropriate messages to seafarers in a user-friendly format is therefore paramount.



As was reported last year, the Club launched a booklet and poster initiative on shipboard safety and fatigue in 2004. In addition to this, the Club continued by releasing three posters during 2005 on oily water separation, maritime security and entry into confined spaces. These will be followed-up by additional posters later in 2006 on such issues as the "do's and don'ts" in regard to port State control, exercise and fitness and other relevant topics.

Finally, in the pursuit of providing Members with relevant up-to-date information on regulatory changes, the Club issued two reports to Members dealing with, respectively the 80th Session of the IMO Maritime Safety Committee and the 53rd Session of the Maritime Environmental Protection Committee. These dealt with, inter alia, such relevant subjects as ballast water management, the pending convention on ship recycling, the safety of passenger ships and maritime security to name but a few.

The Challenges Ahead

Every commentator on the P&I world – both those within the industry and those who observe it from further afield – would no doubt agree that the clubs, collectively, are faced with future challenges of unprecedented magnitude.

Arduous conditions attend virtually every aspect of P&I business. High levels of ship utilization and steep commodity prices have had a negative impact not just

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Ultra Large Crude Carrier (ULCC). Late 20th Century.

on cargo claims, but generally. Mounting demands on shipowners by way of statutory liability, and the concomitant politicization of the consequences of marine accidents, are unlikely to abate.

In the shorter term, the overhead cost of reinsurance protection is likely to rise a result of natural disasters – hurricanes Katrina and Rita are cases in point – with the potential for similar catastrophe over the years ahead. The investment markets, a source of fiscal support in earlier years, remain anemic at best and unreliable as a means of subventing operational losses.

Across the broader economic landscape, geopolitical and macroeconomic uncertainties continue to generate concerns as to the future prospects of the shipping industry in general, upon whose health the clubs must ultimately depend.

Amid such unpromising conditions, the value which the clubs represent to their Members has never been greater, nor is it likely to diminish. It is within this dimension, of course, that the greatest challenges emerge. And it is in addressing these challenges with determination and vigor that the American Club sees its future.

It is a future defined by the provision of unsurpassed service delivered in a cost-effective, sympathetic and energetic manner; a future where the added-value of P&I provision rises steadily; a future where, despite the difficulties of the recent past, the cost of insurance remains predictable; a future where the Club's global outreach continues through the provision of increasingly localized service capabilities; above all, a future colored and brightened by the Club's characteristic optimism in meeting the vicissitudes intrinsic to its mission.

The future will not be easy. But, notwithstanding a relentlessly adverse liability climate, it can be confronted with enthusiasm and resolve. It is to these guiding motives in the provision of service to Members that the American Club will dedicate its future endeavors, building on the past for a stronger future.

2005 FINANCIAL REPORT

REPORT OF THE INDEPENDENT AUDITOR

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

We have audited the accompanying consolidated balance sheets of American Steamship Owners Mutual Protection and Indemnity Association, Inc. (the "Association") as of December 31, 2005 and 2004, 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, 2005 and 2004, 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 7, 2006

Member of
Deloitte Touche Tohmatsu

2005 CONSOLIDATED BALANCE SHEETS

IN THOUSANDS	NOTE	DECEMBER 31 2005	2004
Assets:			
Investments	3	**$ 184,687**	$ 129,768
Cash and cash equivalents		**9,508**	10,992
Members' balances receivable		**32,014**	50,967
Unbilled assessments	6	**13,750**	
Reinsurance recoverable	5	**32,601**	27,110
Other	4	**6,735**	5,815
Total Assets		**$ 279,295**	$ 224,652
Liabilities and Members' Equity			
Liabilities:			
Unpaid losses and allocated loss adjustment expenses	5	**$ 201,724**	$ 149,883
Unreported losses	5	**40,825**	19,000
Unearned premiums		**18,991**	18,194
Reinsurance payable		**1,731**	2,205
Other	4	**1,095**	406
Total Liabilities		**264,366**	189,688
Commitments and Contingencies	8		
Members' equity:			
Retained earnings		**10,611**	30,212
Accumulated other comprehensive income		**4,318**	4,752
Total Members' Equity	10, 11	**14,929**	34,964
Total Liabilities and Members' Equity		**$ 279,295**	$ 224,652

See notes to consolidated financial statements

2005 CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

IN THOUSANDS	NOTE	DECEMBER 31 2005	2004
Revenues:			
Net premiums and assessments earned	6	**$ 150,906**	$ 125,211
Net investment income		**4,003**	2,353
Realized investment gain		**2,140**	196
Total Revenues		**157,049**	127,760
Expenses:			
Losses and loss adjustment expenses incurred	5	**139,694**	94,118
Other operating expenses	7	**36,906**	32,857
Total Expenses		**176,600**	126,975
Income (Loss) Before Income Taxes		**(19,551)**	785
Provision for income taxes		**(50)**	(133)
Net Income (Loss)		**(19,601)**	652
Other Comprehensive Income, (Loss) Net of Tax:			
Unrealized gains (losses) on investments		**(434)**	2,363
Other comprehensive income (loss)		**(434)**	2,363
Comprehensive Income (Loss)		**$ (20,035)**	$ 3,015

2005 CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2004		**$ 29,560**	**$ 2,389**	**$ 31,949**
Net income		**652**		**652**
Unrealized investment gains		**–**	**2,363**	**2,363**
Balance, December 31, 2004	9	**30,212**	**4,752**	**34,964**
Net loss		**(19,601)**		**(19,601)**
Unrealized investment loss		**–**	**(434)**	**(434)**
Balance, December 31, 2005	10, 11	**$ 10,611**	**$ 4,318**	**$ 14,929**

See notes to consolidated financial statements

2005 CONSOLIDATED STATEMENTS OF CASH FLOW

	DECEMBER 31	
IN THOUSANDS	**2005**	2004
Cash Flows from Operating Activities:		
Net Income (Loss)	**$ (19,601)**	$ 652
Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:		
Amortization of bond premiums	**1,056**	620
(Gain) loss on long term securities sold or redeemed	**(2,140)**	(196)
Depreciation	**648**	721
	(436)	1,145
Changes in operating assets and liabilities:		
(Increase) decrease in members' balances receivable	**18,953**	(20,601)
(Increase) decrease in unbilled assessments	**(13,750)**	24,644
(Increase) decrease in reinsurance recoverable	**(5,491)**	(3,807)
(Increase) decrease in other assets	**(1,400)**	(486)
Increase (decrease) in unpaid and unreported losses and allocated loss adjustment expenses	**73,667**	47,943
Increase (decrease) in unearned premiums	**796**	5,182
Increase (decrease) in reinsurance payable	**(474)**	(25)
Increase (decrease) in other liabilities	**689**	(289)
	72,990	52,561
Net cash provided by operating activities	**52,953**	54,358
Cash Flows from Investing Activities:		
Proceeds from sales/maturities of investments	**117,644**	74,624
Purchases of investments	**(171,912)**	(129,280)
Purchases of fixed assets	**(169)**	(135)
Net cash used in investment activities	**(54,437)**	(54,791)
Net Change in Cash and Cash Equivalents	**(1,484)**	(433)
Cash and Cash Equivalents, Beginning of Year	**10,992**	11,425
Cash and Cash Equivalents, End of Year	**$ 9,508**	$ 10,992
Supplemental Information:		
Income taxes paid	**$ 37**	$ 69

See 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 securities and are reported at fair value. Unrealized investment gains/(losses) are shown in Members' equity. The Association has no investments in securities classified as held-to-maturity securities. Securities' transactions are recorded on the trade date. The Association's investment in the general cell of Hydra is carried at cost.

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 deemed 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.

Reclassifications – Certain items in the 2004 financial statements have been reclassified to conform with the 2005 presentation.

3 Investments

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

	AMORTIZED COST	**GROSS UNREALIZED GAINS**	**LOSSES**	**FAIR VALUE**
December 31, 2005:				
US Treasury and obligations of other US government corporations and agencies	$ 305	$ –	$ 15	$ 290
Obligations of states and political subdivisions	133,175	805	1,163	132,817
Short term investments	2,012	–	5	2,007
Common stocks	44,877	6,102	1,406	49,573
Total	$ 180,369	$ 6,907	$ 2,589	$ 184,687

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

All of the Association's fixed maturities with unrealized losses at December 31, 2005 have been in an unrealized position for less than twelve months

The fair value and amortized cost of available-for-sale debt securities at December 31, 2005 by contractual maturity are shown below. Expected maturities may differ from stated maturities because borrowers may have the right to call or prepay certain obligations with or without pre-payment penalties.

	AMORTIZED COST	**FAIR VALUE**
Due in one year or less	$ 10,867	$ 11,086
Due after one year through five years	34,162	33,850
Due after five years through ten years	62,303	62,180
Due after ten years	28,160	27,998
Total bonds and notes	$ 135,492	$ 135,144

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

	2005	2004
Proceeds from sales of investments	$ 103,855	$ 65,467
Gross realized gains	3,703	1,280
Gross realized losses	1,563	1,084

There were no realized losses recorded in 2005 or 2004 that were a result of an investment being other than temporarily impaired.

At both December 31, 2005 and 2004, 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 Other Liabilities

	2005	2004
OTHER ASSETS		
Computer equipment and software – net of accumulated depreciation of $3,147 and $2,498, respectively	$ 1,940	$ 2,419
Receivable for securities sold – including related party receivable of $253 and $402, respectively	603	498
Accrued interest receivable	1,910	1,232
Income tax recoverable	2	23
Prepaid reinsurance premiums	1,288	1,163
Management fee receivable	551	449
Other assets	441	31
	$ 6,735	$ 5,815
OTHER LIABILITIES		
Accrued expenses	644	301
Income tax payable	4	8
Liability for securities purchased	447	97
	$ 1,095	$ 406

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:

	2005	2004
Gross balance at January 1	$ 168,883	$ 120,990
Less reinsurance recoverables	23,063	16,761
Net balance at January 1	145,820	104,229
Incurred related to:		
Current year	102,168	71,386
Prior years	37,526	22,732
Total net incurred	139,694	94,118
Paid related to:		
Current year	6,308	5,030
Prior years	60,164	47,497
Total net paid	66,472	52,527
Net balance at December 31	219,042	145,820
Plus reinsurance recoverables	23,507	23,063
Gross balance at December 31	$ 242,549	$ 168,883

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.

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

	2005	2004
Reinsurance recoverable on unpaid losses	$ 23,507	$ 23,063
Reinsurance recoverable on paid losses	9,094	4,047
	$ 32,601	$ 27,110

The Association assumes losses from the International Group Pool and cedes losses to reinsurers (including the International Group Pool) to limit its exposures.

The components of incurred losses are as follows:

Direct	$ 141,174
Assumed	9,689
Ceded	(11,169)
	$ 139,694

6 Premiums and Assessments

	2005	2004
Premiums written and billed assessments	$ 150,372	$ 166,221
Increase in unbilled assessments	13,750	(24,644)
Return premiums	(1,865)	(1,975)
Reinsurance premiums ceded	(10,868)	(9,104)
Net premiums and assessments written	151,389	130,498
Increase in unearned premium	(483)	(5,287)
Net premiums and assessments earned	$ 150,906	$ 125,211

There are no billed assessments at December 31, 2005 for the 2005 policy year, and there is a net unbilled assessment at December 31, 2005 in the amount of $13.75 million for the 2003 policy year. During 2004, assessments were levied and billed as follows: $6.4 million for the 2000 policy year levied June 30, 2004 collectible in one installment due on August 31, 2004; $7.8 million for the 2001 policy year levied September 30, 2004 collectible in one installment due on January 31, 2005; $9.6 million for the 2002 policy year levied September 30, 2004 collectible in one installment due on September 30, 2005. Additional assessable amounts will be billed as, and if, management deems appropriate.

7 Other Expenses

	2005	2004
Management fee	$ 9,378	$ 7,942
Bad debts	1,234	1,213
Brokerage	15,246	16,309
Other	11,048	7,393
Total operating expenses	$ 36,906	$ 32,857

8 Commitments and Contingencies

Letters of Credit – At December 31, 2005, the Association had outstanding letters of credit for $30 million, $3.4 million of which is a designated reserve that is required by the International Group

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	**2005**	2004
Aggregate gross losses paid to date at December 31	$ 5,832	$ 5,830
Loss reserves - reported	317	319
Loss reserves - unreported	–	2,500

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

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

In June 2004, the Association filed a Declaratory Judgment action against all former members in the insurance years before February 20, 1989 seeking to terminate its discretionary practice of paying unreported, unreserved or under reserved occupational disease claims belatedly asserted as arising in the previously closed years before February 20, 1989.

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

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

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

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

9 Related Party Transactions

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

Also on December 31, 2001, the Association subsequently sold its interest in SCB to Eagle Ocean Management, LLC (“EOM”), a related party to SCB. No gain or loss was recorded as a result of these transactions. The Association maintains a promissory note receivable from EOM totaling $253,431 as of December 31, 2005 in satisfaction of the sale price. The final installment is due October, 2007

As discussed in Note 1, the Association and other members of the International Group established a segregated cell captive Insurance company (Hydra) during 2005. The Association cedes certain Group Pool claims to its cell within Hydra. The results of the Hydra cell are consolidated with those of the Association, with intercompany balances and transactions 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 Assets – Under statutory accounting practices, certain assets, principally premiums receivable over 90 days past due, are not reflected in the statutory statement of assets, liabilities and surplus. Such nonadmitted assets are charged directly against surplus. Under accounting principles generally accepted in the United States of America, such amounts are recorded as assets, net of an allowance for doubtful accounts.

Computer Equipment, Furniture & Supplies – Under statutory accounting practices, the Association 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:

	2005	2004
Statutory surplus, as reported	$ 8,729	$ 37,657
Future assessments receivable up to difference between ultimate and present values of losses	(18,235)	(12,297)
Unbilled assessments, net	13,750	–
Nonadmitted assets	3,827	9,693
Carrying value of applications software and consultants' fees	1,776	2,315
Reserve for reinsurance	2,834	2,136
Allowance for doubtful accounts	2,507	(5,346)
Unrealized gain (loss) on available-for-sale securities	(455)	806
Other	196	–
Members' equity on the basis of Generally Accepted Accounting Principles	$ 14,929	$ 34,964

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 resolves to close the year. Years are closed after the ultimate liabilities for that year are known with a high degree of probability. The 2001/02 policy year was closed March 31, 2005 without further calls and the 2002/03 policy year was closed on September 30, 2005, 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

	2003-04	2004-05	2005-06
Income:			
Calls and premiums	$ 87,805	$ 125,004	$ 110,912
Supplementary calls	13,750	–	–
Investment income	2,185	1,858	1,472
Total income	103,740	126,862	112,384
Expenses:			
Net paid losses	54,326	31,813	6,202
Net pending losses	27,327	64,740	64,335
Undiscounted IBNR	250	1,100	31,526
Reinsurance premiums	9,500	8,529	9,333
Other operating expenses	9,928	14,991	16,368
Total expenses	101,331	121,173	127,764
Retained earnings	2,409	5,689	(15,379)
Contingency fund transfers	–	–	–
Unrealized investment gain	–	–	–
Members' equity: open years	$ 2,409	$ 5,689	$ (15,379)

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

2003/04	$ 5,133
2004/05	$ 9,024
2005/06	$ 10,095

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

(c) For the 2005/06 policy year calls and premiums are stated on an earned basis to December 31, 2005. Expenses are stated on an accrued basis for the same period.

Development of Closed Policy Years and Contingency Fund

	2005	2004
Closed years' balance, January 1	**$ –**	**$ –**
Total income earned	2,565	128
Net paid losses	11,324	3,670
Net pending losses	(6,923)	(3,185)
Unreported losses (IBNR)	(600)	(500)
Reinsurance premiums	664	(387)
Other operating expenses	4,098	1,648
Total expenses incurred	8,563	1,246
Unrealized investment gains	(434)	2,363
Transfer from closed policy year 2002/03	(215)	–
Transfer from closed policy year 2001/02	–	–
Transfer from closed policy year 2000/01	–	(1,766)
Net change	(6,647)	(521)
Transfer from contingency fund	6,647	521
Closed years' balance, December 31	**$ –**	**$ –**
Contingency fund balance, January 1	**$ 27,766**	**$ 37,543**
Transfer to policy year 2001/02	–	(3,791)
Transfer to policy year 2002/03	–	(4,374)
Transfer from (to) policy year 2003/04	1,091	(1,091)
Transfer to closed policy years	(6,647)	(521)
Contingency fund balance, December 31	**22,210**	**27,766**
Open policy years' equity		
2001/02	–	459
2002/03	–	(531)
2003/04	2,409	(6,742)
2004/05	5,689	14,012
2005/06	(15,379)	–
Total members' equity	**$ 14,929**	**$ 34,964**

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

12 Leases

Lessee Leasing Arrangements

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

Year	Amount
2006	397
2007	397
2008	397
2009	397
2010	231
Total	$ 1,819

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, 2005.

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

For the five years ended December 31, 2005 the ratio of 13.1% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 11.4% recorded for the five years ended December 31, 2004, an increase of 1.7%, due principally to an increase in unearned premiums written for the 2005/06 policy year, and an increase in operating expenses associated with a new office in Greece.

STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2005 AND 2004

IN THOUSANDS	DECEMBER 31		DECEMBER 31	
	P&I		FD&D	
	2005	**2004**	**2005**	**2004**
Income:				
Net premiums and assessments earned	**$ 144,541**	$ 120,338	**$ 6,365**	$ 4,873
Net investment income	**3,834**	2,261	**169**	92
Realized investment gain	**2,049**	188	**91**	8
Total Income	**150,424**	122,787	**6,625**	4,973
Expenses:				
Losses and loss adjustment expenses incurred	**132,937**	90,653	**6,757**	3,465
Other operating expenses	**35,349**	31,578	**1,557**	1,279
Total Expenses	**168,286**	122,231	**8,314**	4,744
Income (Loss) Before Income Taxes	**(17,862)**	556	**(1,689)**	229
Provision for income taxes	**(48)**	(128)	**(2)**	(5)
Net Income (Loss)	**(17,910)**	428	**(1,691)**	224
Other comprehensive income, net (loss) of tax:				
Unrealized gains (loss) on investments	**(416)**	2,271	**(18)**	92
Other comprehensive income	**(416)**	2,271	**(18)**	92
Comprehensive Income (Loss)	**$ (18,326)**	$ 2,699	**$ (1,709)**	$ 316

BOARD OF DIRECTORS *(as of February 20, 2006)*

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)

CALVIN W. S. CHENG (Eastmark Associates, Inc.)

KEITH DENHOLM (Pacific Carriers Limited)

KENNETH T. ENGSTROM (International Shipping Partners)

SAMUEL A. GIBERGA (Hornbeck Offshore Operators, LLC)

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

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

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

GEORGE VAKIRTZIS (Polembros Shipping Limited)

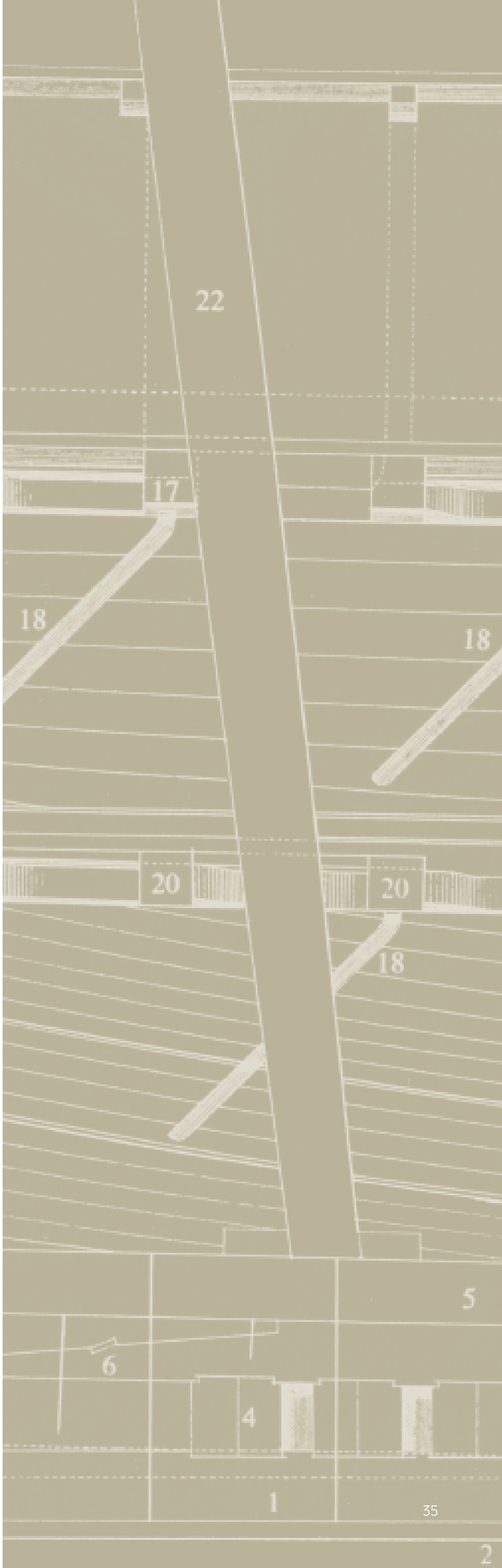
JONATHAN C. WALES (Reinauer Transportation Companies)

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

SERVET YARDIMCI (Yardimci Group)

Secretary

JOSEPH E. M. HUGHES



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THE AMERICAN CLUB