THE AMERICAN CLUB

2007 ANNUAL REPORT

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HIGHLIGHTS

- 2007 begins with improvement of risk profile as comprehensive underwriting plan is implemented at renewal.
- Small decline in tonnage offset by targeted increase in rates and uplift in deductibles.
- Tonnage holds firm during year and core rating levels remain solid.
- 2004 policy year closed without call in excess of original estimate, but adverse development in 2006, largely attributable to Pool claims, induces additional supplementary call.
- Funds under investment continue to grow: better than benchmark returns achieved.
- Incidence and aggregate value of claims decline, but twin challenges of accelerating Pool exposures and commodity price inflation endure.
- Member service capabilities strengthened: ***Stranger on the Bridge*** DVD produced: survey program develops robustly: pre-employment medical program achieves further outreach.
- Declaratory judgment action concerning pre-1989 occupational disease claims settled: substantial benefits to current and future Members ensue.
- Standard and Poor's raise Club's financial strength ratings: outlook pronounced stable.
- Opening of new management office in Shanghai extends Club's service capabilities into China and other parts of East Asia.
- 20% increase in rating ordered for 2008 plus application of higher deductibles: reinsurance costs remain steady.
- 2008 renewal sees small decline in tonnage, but rating and deductibles conform to budget: early development suggests improving outlook may continue into 2008.

Design by JRM&A Inc.
Illustrations by Mr. John Steventon

2007 was a year of achievement for the American Club. A comprehensive underwriting review improved the risk profile of renewing Members. Year-on-year tonnage reduced slightly, but underlying premium rates rose substantially. The number and aggregate value of claims declined. Loss prevention initiatives were expanded. Funds under investment generated solid returns. IT systems were further enhanced. The declaratory judgment action in regard to pre-1989 occupational disease claims was successfully concluded. Standard and Poor's upgraded the Club's counterparty credit and financial strength ratings. A new management office in Shanghai was opened. Despite a challenging business climate, the future holds great promise.

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, 2007.

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 14, 2007. At that meeting, Mr. J. Arnold Witte of Donjon Marine Co. and Mr. Markos K. Marinakis of Marinakis Chartering were elected Chairman and Deputy Chairman respectively, following the resignation of Messrs. Paul Sa and James P. Sweeney from those positions.

The Members present at the Annual Meeting, together with the Directors and the Managers, thanked Messrs. Sa and Sweeney for their long and exemplary service during which the American Club had enjoyed great success in the development of its strategic aims, much assisted by their close involvement and support. Mr. Sa, in particular, had served a full decade as Chairman during a period of unprecedented growth.

The Annual Meeting was, moreover, very pleased to note that both Mr. Sa and Mr. Sweeney were prepared to continue to sit on the Board to which they were in the result re-elected. In addition, Mr. Lawrence J. Bowles was re-appointed General Counsel to the Club and Mr. Joseph E.M. Hughes, the Chairman and CEO of the Managers, was re-appointed Secretary.

At the same meeting, Mr. R H Brown Jr. was elected a Director of the Club as was Mr. Rogelio Salinas Garcia of Grupo Protexa of Monterrey, Mexico. Both were welcomed to the Board in the expectation of their making a significant contribution to business of the Club during their period of service.

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 2007. Aside from the Annual Meeting, the Directors met on two other occasions in New York. The last meeting of the year, in November 2007, was held in Shanghai, 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.

The meeting in Shanghai was made the more significant by reason of the recent appointment of the Club's exclusive correspondent for the

People's Republic of China, and East Asia in general, SCB Management Consulting, Ltd. A further report on this appointment is contained in the Report of the Managers.

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

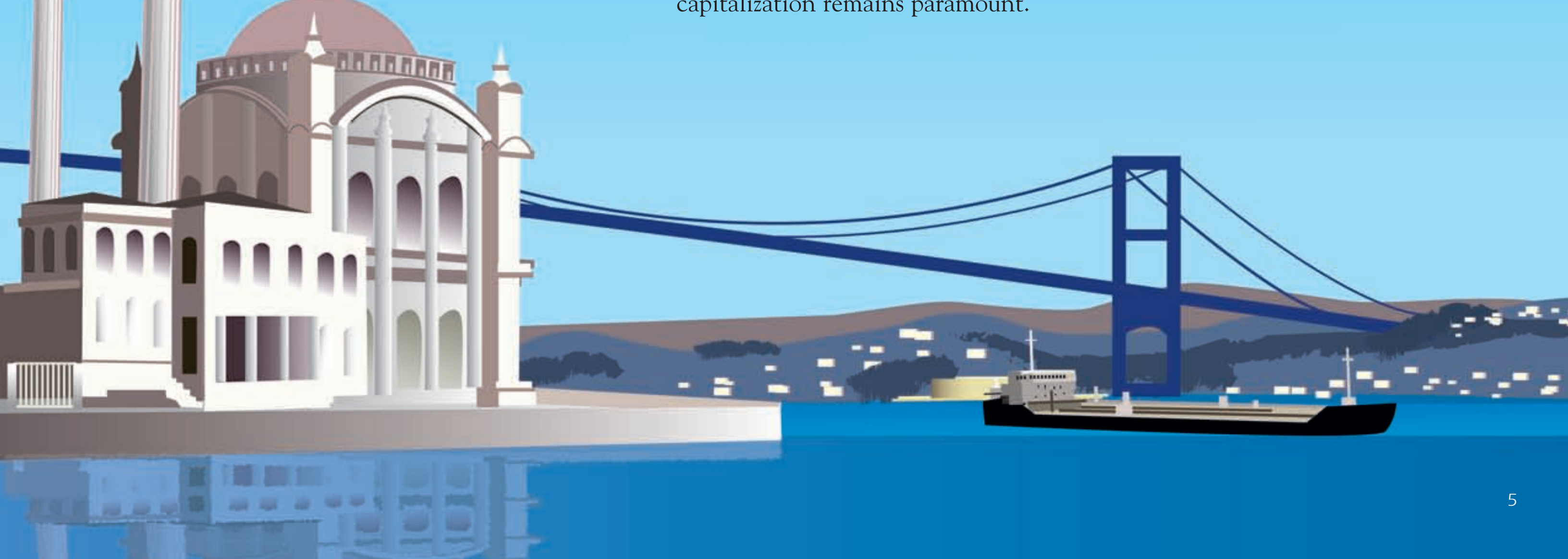
- Election of Directors.
- Policy year accounts and closing relevant years.
- Settlement of claims of the Club's Members.
- Settlement of International Group of P&I Clubs' Pool claims.
- Setting of premium levels for the subsequent policy year.
- The settlement of an action seeking a declaratory judgment (DJA) 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.
- The 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.
- Establishment of the Managers' new exclusive correspondent office in Shanghai.
- 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 the 2004 policy year, without call in excess of the original forecast, as of September 30, 2007.

In Club Circular No. 24/07 of December 5, 2007, Members were informed of a requirement for a call on the 2006 policy year of 15% of the Advance Call for that 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 2006 call was ordered for payment in one installment on May 20, 2008. In addition to this, and in conjunction with the settlement of the declaratory judgment action (DJA) concerning closed year occupational disease claims, it was decided that a surplus enhancement call of 5% be levied on all open years. This is, again, discussed in more detail in the Report of the Managers.

It is a source of regret that such calls should again be necessary. However, the Directors take the view that, in an increasingly demanding regulatory and rating climate, coupled too with a claims environment featuring relentlessly inflationary trends, the need to maintain decent levels of capitalization remains paramount.



However, part of the requirement for increased calls on 2006 is attributable to unprecedentedly large Pool claims for that year. These are claims of the members of other clubs in respect of which the American Club has an obligation to make contribution under the terms of its participation in the International Group Pool. The 2006 Pool has proved so far to be the largest in history, although there are signs that the aggregate value of Pool claims for 2007 could match that for the prior year.

The anticipation of continuingly high Pool exposures, together with likely inflationary trends affecting underlying claims, informed the Board's decision to apply a 20% general increase for the 2008 policy year, again more fully discussed in the Report of the Managers below.

Notwithstanding these developments, the Club's funds under investment remain at record levels and – as has consistently been the case – its liquidity remains robust.

In this context, it was gratifying to note that Standard and Poor's raised their counterparty credit and financial strength ratings on the American Club to the BB range in October 2007. This is discussed in greater detail in the Report of the Managers.

During 2007 the Club continued to benefit from meetings of the Finance, Claims 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.

Earlier year initiatives of publishing easy-to-read booklets and posters for both shipboard use and for reference ashore were enhanced during 2007 by the production of a DVD, ***Stranger on the Bridge,*** aimed at enhancing the awareness of seafarers in regard to bridge resource management while a pilot is on board.

The DVD was made available free of charge for all Members having the entry of owned vessels in the Club. Sufficient copies were distributed to Members so as to ensure each entered ship might have a copy on board.

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 scheme for Pre-Employment Medical Examinations (PEMEs) was further developed and refined.

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 continued to be of assistance.

Despite the considerable distress which came to characterize the investment markets toward the last quarter of the year, the return on the Club's portfolio was 5.35%, compared with a benchmark figure of 5.34%. This was just over a percentage point less than the return obtained during 2006 but was achieved in a much more difficult climate, particularly toward year end. The subject is dealt with in further detail in the relevant section of the Report of the Managers.

The Claims Committee met on four occasions during 2007 in order to consider claims development on recent policy years, recent court decisions, the development of International Group Pool claims and other related matters. As was the case in the previous year, the Claims Committee was also involved in liaising with the Safety and Environmental Protection Committee and the Club's underwriting department as part of the continuing plan to achieve enhanced technical results for 2008 and beyond.

A highlight of the year was the settlement of the declaratory judgment action (DJA) concerning pre-1989 year occupational disease claims. This was agreed as between the American Club and those parties impleaded as defendants in the action which was originally commenced in June, 2004.

The settlement benefits all concerned through the compromising of disputed issues. It provides for limited annual payments to the defendants on a pre-agreed basis. This benefits the Club's current and future Members by optimizing cash flow in settlement over the years ahead.

In closing, the Directors thank the Members for their continuing support of the Club. This is never taken for granted and, as in all elements of the service the Club seeks to provide, must continue to be earned. Thanks are also due to the many others who worked hard in 2007 to progress the Club's aims in a difficult environment for the P&I industry in general.

It is clear that challenges lie ahead for all who participate in the P&I sector. Nevertheless, the American Club remains optimistic as to the future, to which it looks forward with its characteristic enthusiasm. It is determined to continue along the course it has set for itself. Navigated with care, this course promises to hold many exciting prospects over the years ahead.

REPORT OF THE MANAGERS

2007 was a year of further progress for the American Club. While conditions remained challenging, positive developments took place in several areas.

The Club's focus on the steady improvement of underwriting results continued to assist its operating performance. Service capabilities were enhanced by the opening of a new management office in Shanghai. The uncertainties surrounding the treatment of pre-1989 occupational disease claims were removed through the settlement of the declaratory judgment action.

The remainder of this report provides further details of these and other features of Club activity during the year.

Entered Tonnage, Underwriting and Reinsurance

The 2007 renewal was preceded by a wholesale review of the Club's underwriting portfolio. This exercise was in continuation of initiatives commenced in early 2006.

For 2007, the Club's Board had mandated a further general increase of 10% on expiring premiums to be linked – as had been the case in the previous year – to an increase in deductibles where appropriate.

From a high figure of 22.3 million gross tons the previous year, overall tonnage declined to about 19.3 million gross tons as of February 20, 2007. However, this reduction in tonnage reflected the decision to reorganize the Club's book of business. This entailed mid-year cancellations and the non-renewal of a number of other accounts. In consequence, about 1.1 million gross tons and approximately 100 vessels were discharged.

During 2007 itself, entered tonnage remained broadly stable, as the Club continued to take a conservative posture in regard to the writing of new business.

For the February 20, 2008 renewal the Board ordered that a general increase of 20% be applied to expiring premiums, with deductibles to be adjusted to take account of the circumstances of particular fleets and certain types of claims exposure.

Overall, the 2008 renewal produced a satisfactory result for the Club. While about 600,000 gross tons of the mutual book was lost – being some 4% of the total – and a rather larger downturn took place in the fixed-premium, charterers' sector, a rise in pure cash terms of about 16.5% was achieved on renewing business.

Substantial increases in deductibles were also obtained, producing, when the cash effect of such increases is taken into account, an overall rating uplift somewhat in excess of the budgeted 20%.

The Class II Freight, Demurrage and Defense portfolio also experienced an increase in total premium. Here more than 12% was achieved against a budgeted 10%.

Last year, it was reported that the tonnage declined renewal as of February 20, 2007 had an historical loss ratio of 121% for the period 2001 to 2006 – a collectively negative result in respect of which the Club had then unburdened itself.

At the outset of 2007 it was noted that the fleets renewed had a collective historical loss ratio of 66% i.e. better than break-even. This compared with a loss ratio in excess of 90% for all entered fleets for 2001 to 2006, inferring that renewed entries were better performers than those on average in the past.

Happily, this trend has continued into 2008. Currently active business groups have a cumulative loss ratio of 65% for policy years 2002 to 2007 inclusive. The Club's renewed sailing fleet – i.e. those vessels actually entered at renewal – have an historical loss ratio of 56%.

The Advance Call for 2008 for all classes of mutual business represents the Estimated Total Premium for the year, the corollary being a zero Supplementary Call forecast at its inception.

This pattern of premium collection has been a feature of recent years and continues to generate cash flow benefits for the Club.

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, is set out in the tables on pages 11, 12 and 19 respectively.

As will be seen, both the split between owned and chartered entries and the Club's entry in relation of management domicile have undergone change year-on-year. The European sector now represents 75% of entered tonnage, while the US and Asian sectors have declined somewhat by comparison.

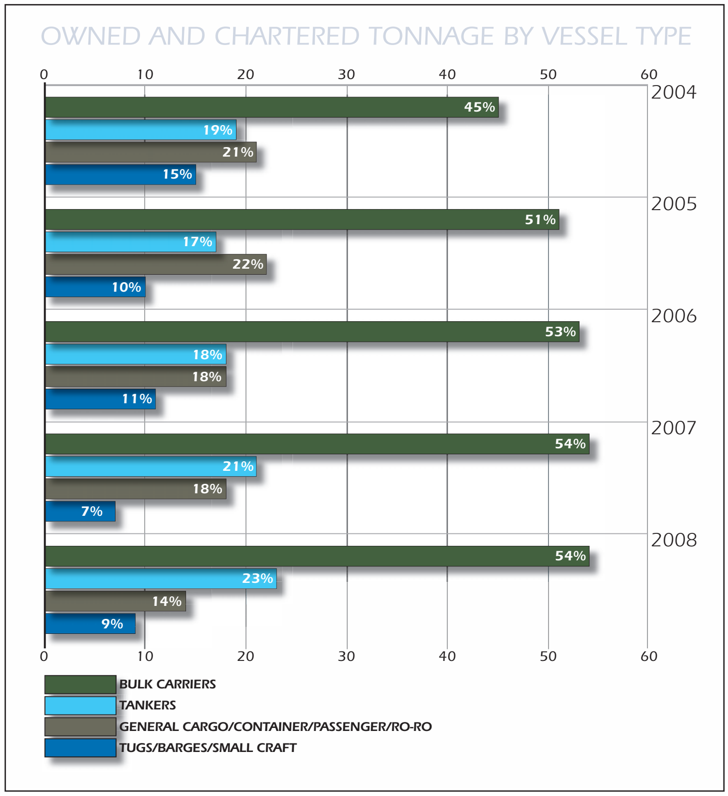
On the reinsurance front, the Club's arrangements during 2007 remained essentially unchanged from those of 2006. Participation in the International Group of P&I Clubs' scheme continued, entailing a retention of $7 million per claim and sharing in the Group Pool for a further $43 million over and above that figure. The lower layer of the Pool remained at $23 million during 2006, the upper tranche (i.e. $20 million excess of $30 million)

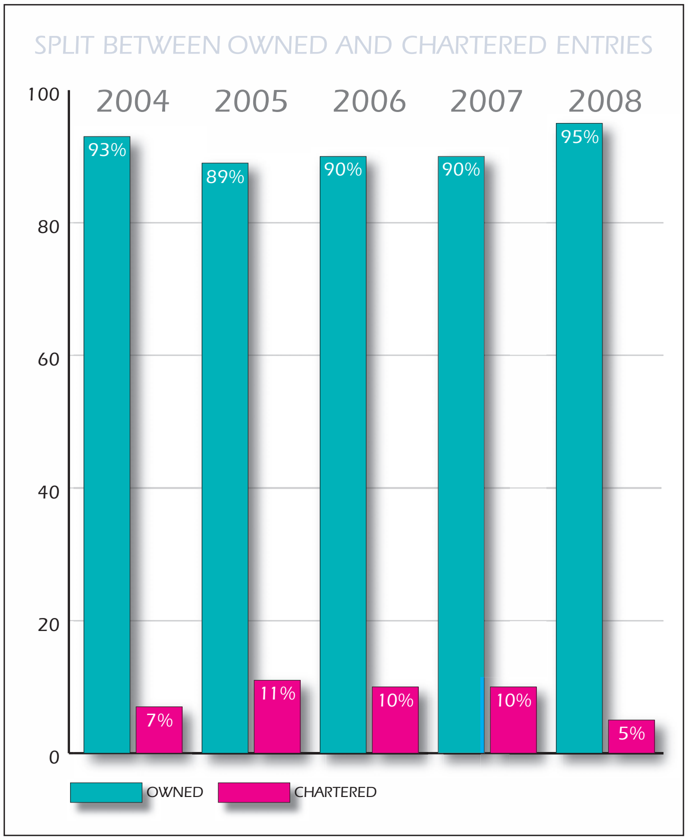
being reinsured, as has been the case since 2005, by the International Group's Bermuda-based captive, Hydra Insurance Company Limited.

Hydra is a segregated cell captive which reinsures 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. This had undergone change for 2007 in three major respects.

First, there was an increase in individual club retentions from $6 million to $7 million any one claim, although the ceiling of the Pool – mentioned above – remained the same. Secondly, the two layers of $500 million which for 2006 had applied in excess of $1.05 billion for non-oil pollution claims were consolidated into a single layer of $1 billion with unlimited reinstatements.




SPLIT BETWEEN OWNED AND CHARTERED ENTRIES
2004
2005
2006
2007
2008
100
80
60
40
20
0
93%
7%
89%
11%
90%
10%
90%
10%
95%
5%
OWNED
CHARTERED

Earlier, the uppermost tranche 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 was purchased. This was – and remains – subject to a single reinstatement provision. It was 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 described above has remained in effect for 2008. It is set out in the schematic on page 15.

The significant rise in Pool claims – particularly those affecting the upper layer of the Pool – has recently been the subject of much comment. A record 2006 in this respect appears to be matched by results for 2007.

This has affected the cost of the Hydra reinsurance, the captive's capital base having required further funding during 2007. While the extra costs of participation in Hydra – which entailed an increase in its pricing from $82.75 million to $120 million for the 2008 policy year – are unfortunate, it is important to remember that, in the absence of Hydra, the losses to the relevant layer would have been absorbed by the Group's reinsurers and would have adversely impacted the cost of the Group's general excess of loss reinsurance contract for the 2008 and future renewals.

The Group remains convinced that the strategic objectives and underlying rationale of Hydra are sound and unaffected by the initially adverse claims experience. There remains a strong commitment within the Group to the continued participation of Hydra in its reinsurance program in the future.

As to the reinsurance of the Club's retained exposures, the arrangements for 2007 remained largely the same as those which had prevailed during the previous year. Cover was placed to protect a layer of $5 million in excess of $2 million per claim, with an annual aggregate deductible of $12 million.

However, for 2008, cover has been renewed on a slightly different basis. The contract provides protection against claims for $3.5 million excess of $3.5 million excess of $4 million annual aggregate deductible. The cover limit is $10.5 million. 70% of the risk has been placed with Munich Re and 30% with Swiss Re.

While the 2008 attachment point is higher than that of 2007, the pricing is highly competitive in terms of basic cost and, importantly, annual aggregate deductible.

Supplementary Calls

The period under review saw the formal closing of the 2004 policy year, without call in excess of the original forecast, as of September 30, 2007.

Toward the end of 2007, it became clear that, while the 2005 policy year remained stable following the application of an additional call of 15% of the Advance Call for that year, 2006 continued to deteriorate. Much of the deterioration was driven by the unprecedented level of Pool claims experienced by the International Group over this period. A large part of the negative development of the Pool emerged during the first half of 2007, as did some deterioration in the Club's retained exposures, although to a lesser extent.

While there were grounds for cautious optimism that 2006 might improve over time as more investment income was allocated to the year and IBNR was reduced as claims matured, it was decided that it would be sensible to cure this continuing deficit by levying an additional Supplementary Call of 15% of qualifying Advance Calls for the year.

This call was ordered for payment in one installment on May 20, 2008.

In addition, a further call to enhance Club surplus was also considered appropriate in light of the Board's commitment to grow free reserves more rapidly in circumstances where less reliance could be placed on investment income given the unpredictability of the capital markets over the months ahead.

As in the case of the Supplementary Call for 2006, it was ordered for payment on May 20, 2008.

Finance and Investments

Toward the end of 2005, Merrill Lynch was appointed as advising intermediary for the purpose of liaison with its individual fund managers. This arrangement continued during the period under review with the aim of achieving better returns than had been the case in earlier years.

In global terms, cash and funds under investment grew from approximately $224 million at December 31, 2006 to nearly $240 million a year later. This increase – of about 7% – was rather less than that recorded a year earlier, but was in line with expectations.

By reason of the growth in its invested funds, and certainly by comparison with previous years, the Club remains better positioned 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, than ever before. Nevertheless, current circumstances within the markets, and the fragility thereof, represent a continuing challenge to all investors.

Broadly speaking, the Club maintained a portfolio structure largely similar to that of previous years, the chief direction of its strategy being to optimize the balance between capital preservation, regulatory compliance and market opportunity.

Year-end 2007 saw the Club's portfolio broadly comprising 11% in cash and cash equivalents, 55% in fixed income securities, 29% in equities and approximately 5% in alternative investments. The move into securities of this latter type had taken place toward the end of 2006 and, while representing a modest commitment of Club funds, continued to perform well during the period under review.

Overall, the return achieved from the portfolio was 5.35% on a daily weighted average basis. The fixed income sector returned 5.04%, while equities and alternative investments produced 6.64%. This performance was somewhat ahead of the S&P 500 benchmark of 5.49% for 2007, although the fixed income return was slightly under the Merrill Lynch Muni 3-7 benchmark of 5.28%, this being an appropriate measure in view of the Club's position in the municipal sector where it enjoys very favorable tax treatment.

On a blended S&P 500/ML Muni 3-7 basis, the overall performance of the portfolio at 5.35% was slightly ahead of the 5.34% exemplified by this benchmark, a satisfactory performance given the considerable distress being experienced by the capital markets, especially during the last half of the year.

Claims

The Club's claims experience on its own account in 2007 was encouraging. The incidence of claims decreased in almost every sector, a trend most likely attributable to the influence of higher deductibles, enhanced loss prevention initiatives and a slight reduction in entered tonnage.

Specifically, incurred claims for the Club's own account for 2007 at year end were $22 million lower than those experienced in 2006 at the same point. As of April 2008 they were fully $28 million less.

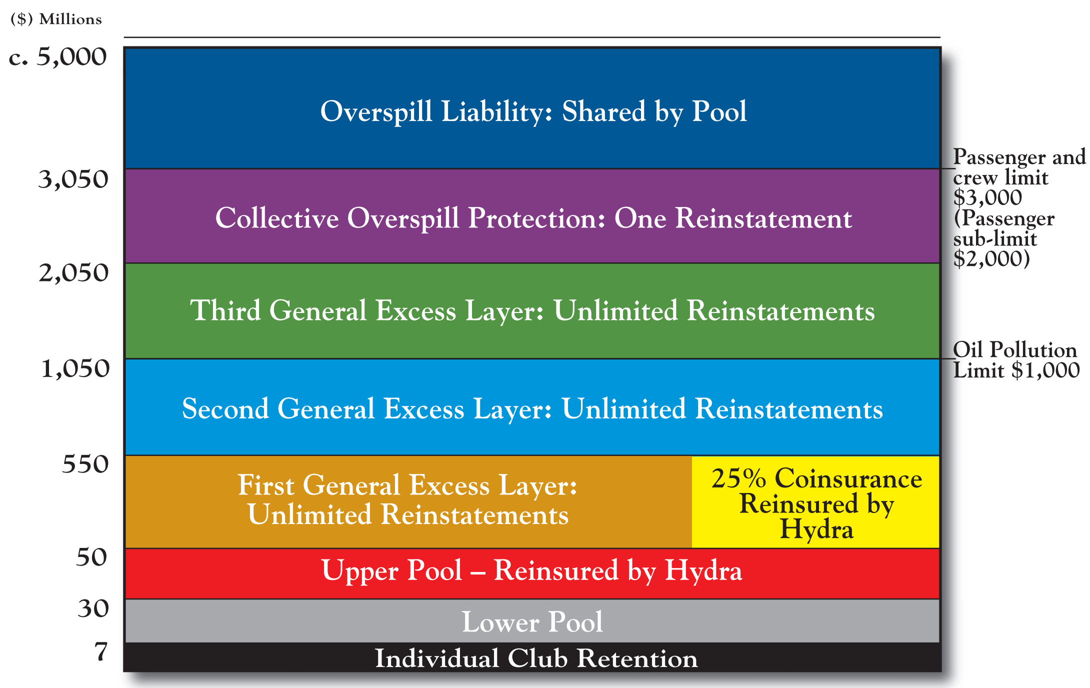
Claims in the attritional layer, i.e. those up to $250,000 per incident net of deductible, accounted for 97% of the total number of claims recorded for 2007, a proportion broadly consistent with that seen generally in recent years. There was, however, a 22% drop in the total value of claims within this layer by comparison with 2006. At the higher end, there were twenty-six claims in excess of $250,000 and nine claims in excess of $1 million.

The distribution of claims by type of loss remained broadly consistent with prior years. The two primary sectors of exposure, on both an incident count and value basis, were cargo claims and cases involving death, injury and illness.

Excluding the Club's contribution to Pool claims, matters concerning cargo accounted for approximately 33% of 2007 claims by value, while death, injury and illness claims accounted for another 30%. Claims arising from damage to third party property were also significant, the headline total being mainly due to an incident at a terminal in Brazil, which thus far represents the only 2007 claim to date exceeding $5 million as presently reserved.

It is expected that about 2,300 claims will have been recorded by the time the 2007 policy year is closed. This is a reduction of about 250 claims by comparison with the projected total claims for 2006 and over 1,000 fewer than 2004 and 2005.

SCHEMATIC OF INTERNATIONAL GROUP REINSURANCE COVER 2008/2009



While claims development for 2007 has not yet matured, and is still susceptible to upward movement, the trends thus far are promising.

The Managers' claims capabilities were augmented by the opening of an office in Shanghai in November 2007. Personnel were also added in the London & Piraeus offices which continued to gain ground in the Mediterranean region.

International Group claims continue to escalate. The 2006 Pool year is on course to break previous records and the current aggregate exposure is estimated to reach in excess of $500 million. Unfortunately, 2007 Pool claims development appears to be trending in the same fashion.

The Club is expected to contribute approximately $14 million towards Pool claims for 2006. For 2007, the equivalent figure has already exceeded $7 million. It is noteworthy that the American Club does not, as yet, have any Pool claims for 2007 and that, overall, its record within the Pool is thoroughly respectable.

Claims exposure overall continues to move upward. Commodity prices, especially those for food, are increasing relentlessly with cargo claims undergoing commensurate inflation. Rising operational expenses, largely due to higher fuel prices and a shortage of trained officers and crew, are other factors conspiring to generate a hostile claims environment.

It is discouraging to note that cargo claimants and port authorities in certain parts of the world continue to view a vessel and its owner as an easy target for payment of phantom shortage claims or fabricated fines and penalties. Unfortunately, there is little likelihood that such regional anomalies will change in the immediate future.

Activity within the International Group of P&I Clubs

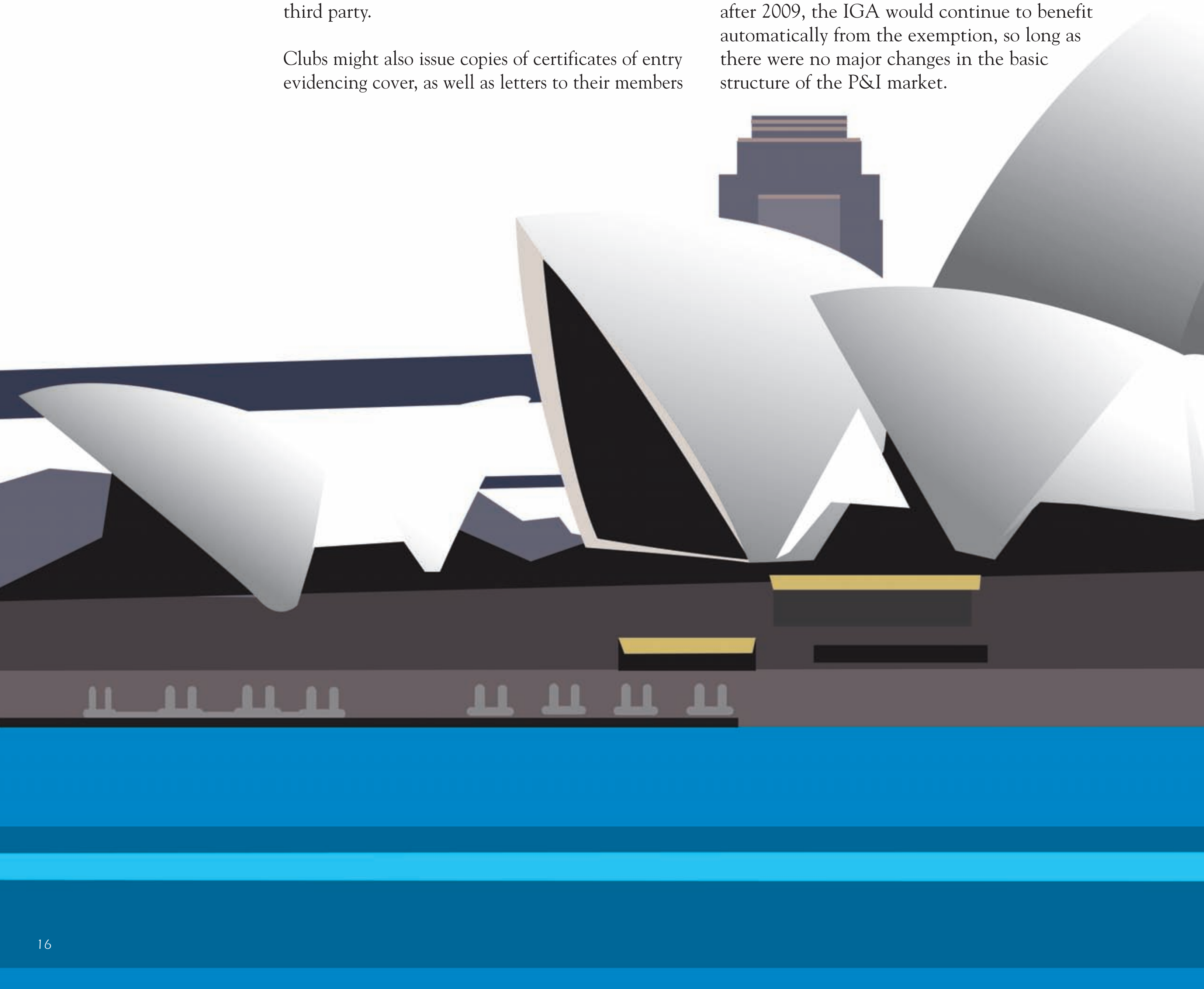
The American Club continued to play an active role in International Group business throughout 2007, the year being marked by significant developments in a number of areas of importance to the shipowning community. As always, the Club's participation was motivated by its customary desire to promote both the interests of its Members and those of the maritime industry at large.

After more than two years' consultation, it was agreed to incorporate a new Appendix into the 2007 Pooling Agreement, to answer industry-wide concerns regarding the insurance of sub-standard vessels. This Appendix outlines procedures whereby a club which finds a vessel to be unfit for insurance might seek to reduce the risk of having to share in a subsequent Pool claim by another club for that vessel, by making it subject to a double retention for pooling purposes.

The International Group's policy in regard to confirmation of entry was further reviewed in 2007. This resulted in the affirmation that requests for confirmation of entry of vessels in Group clubs should, in the first instance, be referred to the lists of entered vessels on individual club websites, with the disclaimer that this should not be construed as a representation directly by the Club to a third party.

Clubs might also issue copies of certificates of entry evidencing cover, as well as letters to their members or directly to a third party appointed by the club on the member's behalf, such as a correspondent or lawyer. Notwithstanding this clear policy, the Group's position on confirmation of entry continued to be tested during the year – notably, by port authorities in India and Brazil.

The long-term viability of the International Group received further regulatory approval in September 2007, when the European Commission published its Final Report into the Business Insurance Sector. The International Group Agreement (IGA) currently benefits from an exemption under Article 81(3) of the EC Treaty (relating to competition rules) until February 2009. From 2004, it was decided that such an exemption should apply automatically to any agreement that met the criteria set out in Article 81 (3). The EU Final Report reconfirmed that, after 2009, the IGA would continue to benefit automatically from the exemption, so long as there were no major changes in the basic structure of the P&I market.



A Group Broker Remuneration Code of Practice came into force in October 2007. This was intended to improve transparency and to provide clarification regarding acceptable brokerage arrangements.

In a change of Group policy, it was proposed that war and terrorism risks should, in future, be included in clubs' standard P&I cover. This change was prompted by an IMO decision in 2006 to approve conventions which required shipowners to provide certification for these risks. To date, war and terrorism cover has been provided by the Group clubs as an excess attachment to their members' hull policies. With a new Bunkers Convention coming into force in November, 2008, to be followed by a Wreck Removal Convention, it was argued that full cover should now be made available through members' P&I policies. In any event, Blue Card-type certification in line with earlier CLC practice would be supplied by clubs for all relevant risks, potentially including war and terrorism, pending further deliberation of the larger issue of principle.

The extension of the US Terrorism Risk Insurance Act 2002 (TRIA) in December 2007 for a further seven years, renewed the International Group's obligation to offer cover for terrorism acts to members whose vessels fly the US flag or which trade with the United States. As far as can be ascertained, no Group club member has to date taken up cover under the terms of the Act.

Following review, the decision was taken to abolish minimum tanker scales. The scales had been introduced by the Group at a time when tankers were believed to represent a higher risk (in terms of higher value claims) than other vessel types and that, in a mutual environment, a compensatory mechanism should apply.

However, the review found that the expertise in controlling tanker risk which had been developed subsequently by Group clubs, in terms of loss prevention and premium rating by underwriters, had eliminated the need for any additional weighting toward vessels of this type. Accordingly, it was agreed that the scales should not have further effect after the 2007 policy year.

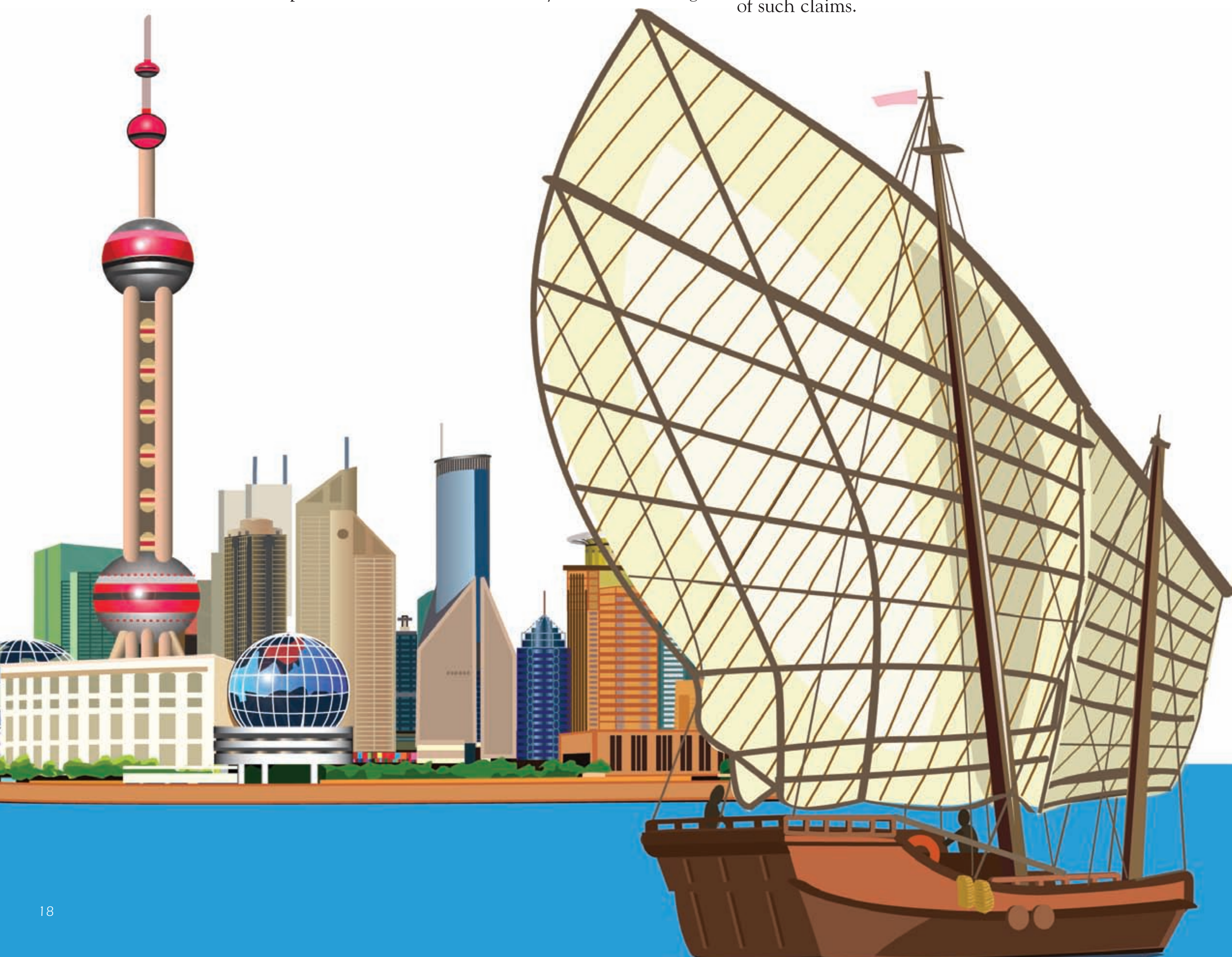
Safety and Loss Prevention

The American Club continued to develop its loss prevention and condition survey initiatives during the period under review. This was in amplification of the considerable progress made in earlier years.

In furtherance of the objective of ensuring that entered vessels meet appropriately high safety standards, 326 surveys were completed during 2007. These were aimed at ensuring the acceptable condition of vessels on entry to the Club as well as satisfying requirements as to the completion of outstanding deficiencies as a result of a vessel's original survey.

The protection of the environment as well as crew and passenger safety remained guiding principles in this respect, to say nothing, of course, of perennial concerns as to vessels' cargoworthiness.

Following an extensive review of the Club's experience of groundings, collisions and contact with fixed and floating objects, it was recognized that marine pilots were involved in about 50% of such claims.



In recognition of this, the American Club devoted considerable resource during the period to the production of a DVD entitled ***Stranger on the Bridge***.

This was developed in cooperation with the International Development and Environmental Shipping School Interactive Technologies, Inc. (IDESS IT Inc.) in Subic Bay, Philippines.

Stranger on the Bridge focuses on the responsibilities of deck crew and the dangers of over-reliance on marine pilotage in preventing accidents. Presented in three languages, English, Chinese and Russian, ***Stranger on the Bridge*** was made available free of charge to all Members having the entry of owned vessels in the Club and marked the beginning of further initiatives of this kind, subsequent offerings to be of a more interactive nature.

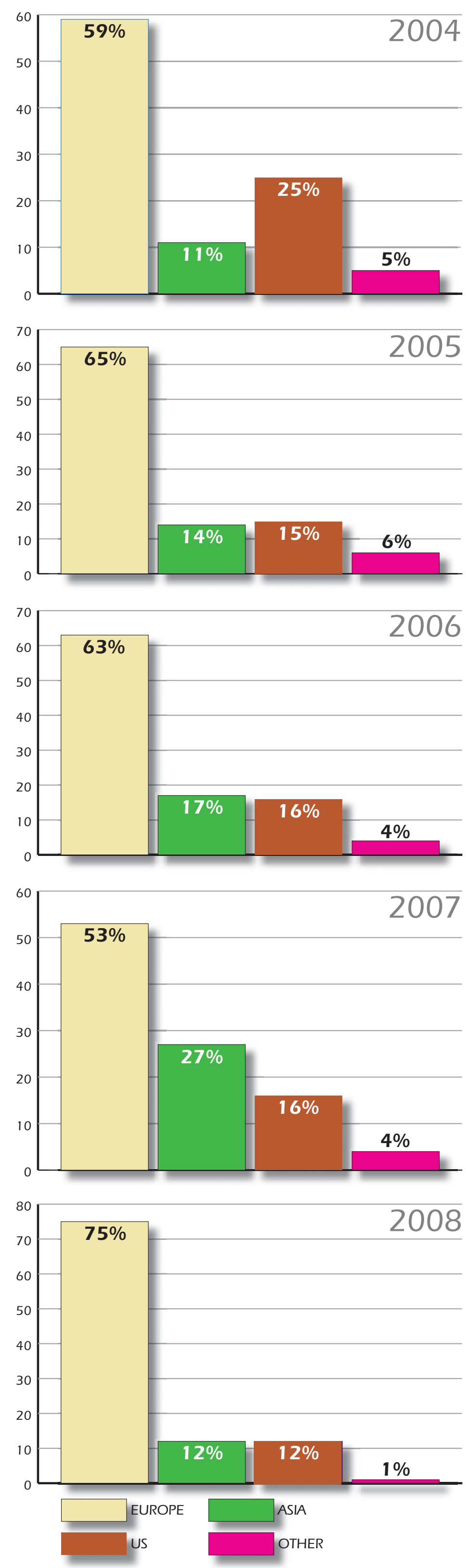
The Club expanded its pre-employment medical examination (PEME) program during 2007. The initiative commenced in April 2004 with a total of ten approved clinics for seafarers domiciled in the Philippines and Ukraine. At present, the PEME program has expanded to embrace forty-five clinics accommodating seafarers originating from six nations including – in addition to the previously mentioned states – Latvia, Poland, Romania and Russia.

In early 2008, the Club expanded its provision of service by providing points of contact for Members in key port cities in Antwerp, Athens, Rotterdam, Hong Kong, Santo Domingo, Singapore and Elizabeth, New Jersey. It is expected that the program will continue to grow in 2008 so as to include an even wider range of nations from which seafarers are resourced by Members.

The Club also continued the practice of releasing reports from the IMO on regulatory changes affecting safety and environmental protection. The Club issued reports covering the 56th session of the Marine Environmental Protection Committee and the 83rd session of the Maritime Safety Committee during the period under review.

These reports update Members on such issues as air pollution, ship recycling, ballast water management and other matters of concern to the maritime community.

OWNED AND CHARTERED TONNAGE BY MANAGEMENT DOMICILE



Settlement of the Declaratory Judgment Action (DJA)

It is pleasing to report the settlement of the Club's declaratory judgment action (DJA) which was commenced in June 2004. At that time, the Club faced significant indemnity claims from its pre-February 20, 1989 Members regarding asbestos and other occupational disease claims belatedly arising from those Members' long-closed years.

While the terms of the settlement agreement are confidential, it can be said that the Club's exposure to former Members is limited to a fixed yearly amount of $800,000 which is expected to be funded from the investment income on a portion of the reserves to which contribution was made by the former Members regarding their known claims. In addition, indemnities will be calculated on a multiple deductible basis.

The settlement, possibly unique in its approach, is of considerable value in protecting the Club's present and future Members since they will not be assessed to pay future closed year occupational disease claims. The Club is also protected from future additional suits by former Members regarding such claims. However, the settlement also protects former Members, as it provides them with an annual payment and, overall, can be seen as a fair and equitable means of compromising a difficult matter.

Recent Accomplishments and Challenges Ahead

Despite arduous business conditions which characterized the P&I environment in general, progress was made by the American Club in many areas during 2007.

As mentioned earlier, 2006 featured the commencement of efforts to consolidate the Club's portfolio so as to achieve better-than-market technical results with the aim of raising the Club's capital to investment grade rating over the medium term.

In this connection, it was gratifying to note that Standard and Poor's (S&P) Ratings Services raised their counterparty credit and financial strength ratings on the American Club to BB- from B+ in October 2007. This occurred in conjunction with the removal of the Club from Credit Watch and the pronouncement of a stable outlook as to its future circumstances.

In taking this action, S&P referred to the Club's improved capitalization, underwriting performance and risk assessment processes. Its assignment of a stable outlook for the Club reflected an expectation that statutory capital would improve on both an absolute and risk-adjusted basis over the forth-coming years. These positive developments in the Club's fortunes speak to the progress it has made in achieving its financial and other goals.

The need to improve the American Club's levels of capital adequacy has been an abiding concern in recent years. It remains a manner of paramount importance and the Club's greatest priority as it continues to increase its financial strength to meet the challenges of the future.

Measured on its underwriting results, the American Club continues to acquit itself very well by any objective standards. Indeed, a review conducted by Elysian Insurance Services during 2007 placed the Club among the best performers in the Group by reference both to pure and combined loss ratio results.

In this context, there are grounds for cautious optimism. The results of 2007, and steps taken into 2008, should, it is hoped, continue to place the American Club at the leading edge of underwriting performance within the International Group. At the same time, investment returns should continue to make a positive contribution to overall results, particularly as premium rates continue to grow.

The settlement of the declaratory judgment action, discussed in detail above, also augurs well for the future since it brings certainty to the Club's cash flow exposure to pre-1989 occupational disease claims for the years ahead.

The Club's commitment to expanding its global reach remains a clear priority. As mentioned above, its capabilities in this respect were enhanced by the appointment of an exclusive correspondent in the

Against this background, the Club's focus on the future has never been sharper. It continues to entertain a firm resolve to meet every challenge which lies ahead, despite the difficulties of recent years. Those challenges will be addressed with vigor and determination.

The Club remains confident that it will be able to fulfill its ambitions over the forthcoming and subsequent years. This will continue to require the single-minded commitment of the Managers. It will also depend upon the loyal support of its Members and its many friends at home and abroad, to whom its future is dedicated, and to whom thanks for another successful year are most warmly extended in closing.

2007 FINANCIAL REPORT

REPORT OF THE INDEPENDENT AUDITOR

Deloitte.

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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, 2007 and 2006, and the related consolidated statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 2, 2008

2007 CONSOLIDATED BALANCE SHEETS

IN THOUSANDS	NOTE	DECEMBER 31 2007	2006
Assets:			
Investments	3	$ 214,145	$ 208,770
Cash and cash equivalents		25,390	15,027
Members' balances receivable		44,939	51,753
Unbilled assessments	6	7,000	—
Reinsurance recoverable	5	50,971	53,800
Other assets	4	5,482	6,772
Total Assets		$ 347,927	$ 336,122
Liabilities and Members' Equity			
Liabilities:			
Unpaid losses and allocated loss adjustment expenses	5	$ 260,237	$ 250,207
Unreported losses	5	30,162	32,107
Unearned premiums		14,600	18,775
Reinsurance payable		3,746	1,962
Other liabilities	4	5,213	1,491
Total Liabilities		313,958	304,542
Commitments and Contingencies	8		
Members' Equity:			
Retained earnings		26,842	25,665
Accumulated other comprehensive income		7,127	5,915
Total Members' Equity	9, 10	33,969	31,580
Total Liabilities and Members' Equity		$ 347,927	$ 336,122

2007 CONSOLIDATED STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

IN THOUSANDS	NOTE	DECEMBER 31 2007	2006
Income:			
Net premiums and assessments earned	6	$ 134,571	$ 152,156
Net investment income		5,539	5,511
Realized investment gains		4,549	5,119
Total Income		144,659	162,786
Expenses:			
Losses and loss adjustment expenses incurred	5	106,959	106,512
Other operating expenses	7	36,298	41,069
Total Expenses		143,257	147,581
Income Before Income Taxes		1,402	15,205
Provision for income taxes		(225)	(151)
Net Income		1,177	15,054
Other Comprehensive Income, Net of Taxes:			
Unrealized gains on investments		1,212	1,597
Other comprehensive income		1,212	1,597
Comprehensive Income		$ 2,389	$ 16,651

2007 CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

IN THOUSANDS	NOTE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL MEMBERS' EQUITY
Balance, January 1, 2006		$ 10,611	$ 4,318	$ 14,929
Net income		15,054	—	15,054
Unrealized investment gains		—	1,597	1,597
Balance, December 31, 2006		25,665	5,915	31,580
Net Income		1,177	—	1,177
Unrealized investment gains		—	1,212	1,212
Balance, December 31, 2007	9, 10	$ 26,842	$ 7,127	$ 33,969

See notes to consolidated financial statements. American Steamship Owners Mutual Protection & Indemnity Association, Inc.

2007 CONSOLIDATED STATEMENTS OF CASH FLOW

IN THOUSANDS	DECEMBER 31 2007	2006
Cash Flows from Operating Activities:		
Net Income	$ 1,177	$ 15,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond premiums	1,160	1,234
Gain on long-term securities sold or redeemed	(4,549)	(5,119)
Depreciation	722	681
	(2,667)	(3,204)
Changes in operating assets and liabilities:		
(Increase) decrease in members' balances receivable	6,814	(19,739)
(Increase) decrease in unbilled assessments	(7,000)	13,750
(Increase) decrease in reinsurance recoverable	2,829	(21,199)
Decrease in other assets	738	37
Increase in unpaid an unreported losses and allocated loss adjustment expenses	8,085	39,764
Decrease in unearned premiums	(4,175)	(216)
Increase in reinsurance payable	1,784	231
Increase in other liabilities	3,722	383
	12,797	13,011
Net cash provided by operating activities	11,307	24,861
Cash Flows from Investing Activities:		
Proceeds from sales/maturities of investments	81,675	100,586
Purchases of investments	(82,449)	(119,175)
Purchases of fixed assets	(170)	(753)
Net cash used in investment activities	(944)	(19,342)
Net Change in Cash and Cash Equivalents	10,363	5,519
Cash and Cash Equivalents, Beginning of Year	15,027	9,508
Cash and Cash Equivalents, End of Year	$ 25,390	$ 15,027
Supplemental Information:		
Income taxes paid	$ 305	$ 133

See notes to consolidated financial statements.

2007 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS)

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. The Company has no uncertain tax position.

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, 2007:				
US Treasury and obligations of other US government corporations and agencies	$ 302	$ —	$ 1	$ 301
Obligations of states and political subdivisions	130,558	1,443	185	131,816
Common stocks	63,635	9,975	4,913	68,697
Preferred stocks	83	11	—	94
Other invested assets	12,439	952	154	13,237
Total	$ 207,017	$ 12,381	$ 5,253	$ 214,145

	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

The following summarizes unrealized investment losses by class of investment at December 31, 2007. The Association considers these investments to be only temporarily impaired.

	Less Than 12 Months		12 Months or More		Total	
	Cost or Amortized Cost	Unrealized Losses	Cost or Amortized Cost	Unrealized Losses	Cost or Amortized Cost	Unrealized Losses
December 31, 2007:						
U.S. Treasury and obligations of other US government corporations and agencies	$ —	$ —	$ 302	$ (1)	$ 302	$ (1)
Obligations of states and political subdivisions	6,331	(57)	20,230	(128)	26,561	(185)
Common stock	23,047	(3,819)	2,905	(865)	25,952	(4,684)
Other invested assets	875	(154)	—	—	875	(154)
	$ 30,253	$ (4,030)	$ 23,437	$ (994)	$ 53,690	$ (5,024)

The fair value and amortized cost of available-for-sale debt securities at December 31, 2007 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	$ 5,476	$ 5,467
Due after one year through five years	51,166	51,548
Due after five years through ten years	50,201	50,828
Due after ten years	24,017	24,274
Total	$ 130,860	$ 132,117

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

	2007	2006
Proceeds from sales of investments	$ 81,675	$ 100,586
Gross realized gains	6,362	7,553
Gross realized losses	1,813	2,434

There were no realized losses recorded at December 31, 2007 and 2006 that were a result of an investment being other-than-temporarily impaired.

At both December 31, 2007 and 2006, United States Government Treasury notes in the amount of $300 thousand par value were deposited with regulatory authorities as required by law.

4 Other Assets and Liabilities

Other Assets	2007	2006
Computer equipment and software - net of accumulated depreciation of $4,550 and $3,828, respectively	$ 1,461	$ 2,012
Receivable for securities sold	4	23
Accrued interest receivable	1,852	1,980
Income tax recoverable	60	—
Prepaid reinsurance premiums	1,258	1,409
Management fee receivable	610	548
Other assets	237	800
	$ 5,482	$ 6,772
Other Liabilities		
Accrued expenses	$ 795	$ 403
Deferred income tax	—	9
Liability for securities purchased	4,417	1,067
Income tax payable	1	12
	$ 5,213	$ 1,491

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:

	2007	2006
Gross balance at January 1	$ 282,314	$ 242,549
Less reinsurance recoverables	38,674	23,507
Net Balance at January 1	243,640	219,042
Incurred related to:		
Current year	72,291	90,966
Prior years	34,668	15,546
Total net incurred	106,959	106,512
Paid related to:		
Current year	8,466	8,113
Prior years	92,986	73,801
Total net paid	101,452	81,914
Net balance at December 31	249,147	243,640
Plus reinsurance recoverables	41,252	38,674
Gross Balance at December 31	$ 290,399	$ 282,314

In 2007, loss emergence for prior years increased by $34.6 million. The increase reflects unfavorable emergence of $17.6 million for the 2006 policy year, of which $14.8 million was expected development through the policy year end date of February 20, 2007, and an unfavorable emergence of $17 million for policy years 2005 and prior. This increase is due to unexpected development in International Group pool claims as well as a $7 million increase that the Association accounted for in 2007 as a result of the Association's asbestos-related claims settlement agreement. See Note 8.

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.

	2007	2006
Reinsurance recoverable on unpaid losses	$ 41,252	$ 38,674
Reinsurance recoverable on paid losses	9,719	15,126
	$ 50,971	$ 53,800

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	$ 98,663	$ 131,606
Assumed	24,580	8,931
Ceded	(16,284)	(34,025)
	$ 106,959	$ 106,512

6 Premiums and Assessments

	2007	2006
Premiums written and billed assessments	$ 138,469	$ 178,855
Change in unbilled assessments	7,000	(13,750)
Return premiums	(1,230)	(1,312)
Reinsurance premiums ceded	(13,902)	(12,010)
Net premiums and assessments written	130,337	151,783
Decrease in unearned premiums	4,234	373
Net Premiums and Assessments Earned	$ 134,571	$ 152,156

In December 2007, an assessment of $11.3 million was levied for the 2006 policy year and capital calls of $3.7 million, $3.8 million, and $4.3 million were levied for the 2005, 2006, and 2007 years, respectively. The assessment and capital calls are recorded in Members' balances receivable and are all due in one installment on May 20, 2008. An unbilled assessment at December 31, 2007 in the amount of $7 million was recorded as a result of the Association's asbestos-related claims settlement agreement. See Note 8.

7 Other Operating Expenses

	2007	2006
Management fee	$ 13,059	$ 11,782
Bad debts	1,489	3,037
Brokerage	13,434	17,159
Other	8,316	9,091
Total Operating Expenses	$ 36,298	$ 41,069

8 Commitments and Contingencies

Letters of Credit – At December 31, 2007, the Association had outstanding letters of credit for $53.4 million, $4.3 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	2007	2006
Aggregate gross losses paid to date at December 31	$5,830	$5,830
Loss reserves - reported	2,700	316
Loss reserves - unreported	4,328	—

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

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

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

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

As a result of the Settlement Agreement and as discussed in Note 5, the Association has recorded additional reserves of approximately $7 million. Additionally, pursuant with the terms of the Settlement Agreement, the Association made a $1.7 million payment in April 2008, representing the $800 thousand payment related to 2007 and a one time $900 thousand payment related to 2006.

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

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

9 Statutory Filings

The Association is required to report the results of its operations to the 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.

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

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

	2007	2006
Statutory surplus, as reported	$ 36,603	$ 31,321
Future assessments receivable up to difference between ultimate and present values of losses	(20,549)	(11,298)
Unbilled assessments, net	7,000	—
Nonadmitted assets	5,513	6,879
Carrying value of applications software and consultants' fees	1,333	1,852
Provision for unauthorized reinsurance	2,084	3,256
Allowance for doubtful accounts	1,176	(575)
Unrealized gain on available-for-sale securities	1,262	(369)
Hydra consolidation adjustment	(453)	514
Members' Equity on the Basis of Generally Accepted Accounting Principles	$ 33,969	$ 31,580

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

10 Open and Closed Years and Contingency Fund

The Association maintains separate accounting for each policy year, which runs from February 20 through February 20, and keeps policy years open until the Board of Directors resolve to close the year. Years are closed after the ultimate liabilities for that year are known with a high degree of probability. The 2004/05 policy year was closed on September 30, 2007, 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

	2005-06	2006-07	2007-08
Income:			
Calls and premiums - net	$ 132,966	$ 115,614	$ 81,689
Supplementary calls debited	12,103	23,773	—
Capital calls	3,658	3,761	4,301
Provision for estimated future calls	—	—	—
Investment income	5,030	3,716	1,792
Total income	153,757	146,864	87,782
Expenses:			
Net paid losses	69,445	39,061	8,158
Net pending losses	44,141	69,301	53,166
Undiscounted IBNR	3,544	1,175	10,659
Reinsurance premiums	11,221	13,214	10,680
Other operating expenses	18,255	18,233	18,098
Total expenses	146,606	140,984	100,761
Retained earnings	7,151	5,880	(12,979)
Members' Equity : Open Years	$ 7,151	$ 5,880	$ (12,979)

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

2005/06	$ 6,412
2006/07	$ 6,522
2007/08	$ 7,501

(b) For the 2007/08 policy year calls and premiums are stated on an earned basis to December 31, 2007. Expenses are stated on an accrued basis for the same period.

	2005-06	2006-07	2007-08
Claims Outstanding (including IBNR) - Open Years			
Gross outstanding claims			
Members's claims	$ 56,120	$ 80,974	$ 56,411
Other Clubs' Pool claims	1,998	8,815	10,440
	58,118	89,789	66,851
Reinsurers' share of outstanding claims			
From the Group excess of loss reinsurance	—	—	—
From the Pool	4,016	17,059	—
Other reinsurers	6,417	2,254	3,026
	10,433	19,313	3,026
Net Outstanding Claims	$ 47,685	$ 70,476	$ 63,825

Development of Closed Policy Years and Contingency Fund

	2007	2006
Closed Years' Balance, January 1	$ —	$ —
Total income earned	11,149	4,057
Net paid losses	21,734	12,641
Net pending losses	(18,863)	(10,571)
Unreported losses (IBNR)	7,050	(1,950)
Reinsurance premiums	(11)	(20)
Other operating expenses	3,333	3,515
Total expenses incurred	13,243	3,615
Unrealized investment gains	1,212	1,598
Transfer from closed policy year 2004/05	9,532	—
Transfer from closed policy year 2003/04	—	1,017
Net change	8,650	3,057
Transfer to contingency fund	(8,650)	(3,057)
Closed years' balance, December 31	$ —	$ —
Contingency fund balance, January 1	$ 25,267	$ 22,210
Transfer from closed policy years	8,650	3,057
Contingency Fund Balance, December 31	33,917	25,267
Open Policy Years' Equity		
2004/05	—	12,718
2005/06	7,151	875
2006/07	5,880	(7,280)
2007/08	(12,979)	—
Total Members' Equity	$ 33,969	$ 31,580
Claims Outstanding (including IBNR) - Closed Years		
Gross pending losses		
Members's claims	$ 69,711	$ 46,100
Other Clubs' Pool claims	5,930	4,281
	75,641	50,381
Pending reinsurance recovery		
From the Group excess of loss reinsurance	373	1,497
From the Pool	421	—
Other reinsurers	7,685	8,559
	8,479	10,056
Net Pending Losses	$ 67,162	$ 40,325

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

11 Leases

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

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 thousand until July 31, 2007, with annual increases until July 31, 2010.

Rental expense for 2007 was approximately $756 thousand. Future minimum rental payments, excluding any expected sublease income, are as follows:

Year	**Amount**
2008	$ 1,154
2009	1,154
2010	988
2011	779
Thereafter	4,173
Total	$ 8,248

12 Average Expense Ratio

In accordance with Schedule 3 of the International Group Agreement 1999, the Association is required to disclose its Average Expense Ratio, being the ratio of operating expenses to income, including premium and investment income, averaged over the five years ended December 31, 2007.

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, 2007 the ratio of 13.0% has been calculated in accordance with the schedule mentioned above and the guidelines issued by the International Group. This compares with a ratio of 12.8% recorded for the five years ended December 31, 2006, a decrease of 0.2%.

UNAUDITED SUPPLEMENTAL SCHEDULES

STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006

	DECEMBER 31		DECEMBER 31	
	P&I		FD&D	
IN THOUSANDS	**2007**	**2006**	**2007**	**2006**
Income:				
Net premium and assessments earned	**$ 127,801**	$ 145,266	**$ 6,770**	$ 6,890
Net investment income	**5,260**	5,261	**279**	250
Realized investment gains	**4,320**	4,887	**229**	232
Total Income	**137,381**	155,414	**7,278**	7,372
Expenses:				
Losses and loss adjustment expenses incurred	**$ 101,780**	$ 101,657	**$ 5,179**	$ 4,855
Other operating expenses	**34,472**	39,209	**1,826**	1,860
Total Expenses	**136,252**	140,866	**7,005**	6,715
Income Before Income Taxes	**1,129**	14,548	**273**	657
Provision for income taxes	**(214)**	(144)	**(11)**	(7)
Net Income	**915**	14,404	**262**	650
Other Comprehensive Income, Net of Taxes:				
Unrealized gains on investments	**1,151**	1,525	**61**	72
Other comprehensive income	**1,151**	1,525	**61**	72
Comprehensive Income	**$ 2,066**	$ 15,929	**$ 323**	$ 722

P&I - represents Protection & Indemnity insurances for Class I Owners' risk and Class III Charterers' risk.
FD&D - represents Class II Freight, Demurrage and Defense insurance.

LOSSES AND REINSURANCE RECOVERABLE
YEARS ENDED DECEMBER 31, 2007 AND 2006

	DECEMBER 31	
IN THOUSANDS	**2007**	2006
Net Claims Paid		
Gross claims paid		
Members' claims	**$ 100,798**	$ 95,486
Other Clubs' Pool claims	**14,360**	5,287
	115,158	100,773
Recoveries on claims paid		
From the Group excess of loss reinsurance	**3,805**	4,305
From the Pool	**1,344**	8,149
Other reinsurers	**8,557**	6,405
	13,706	18,859
Net Claims Paid	**$ 101,452**	$ 81,914
Change in Net Provision for Claims		
Claims outstanding		
Members' claims	**$ 263,216**	$ 265,351
Other Clubs' Pool claims	**27,183**	16,963
	290,399	282,314
Plus reinsurance recoverables		
From the Group excess of loss reinsurance	**373**	1,497
From the Pool	**21,695**	17,394
Other reinsurers	**19,184**	19,783
	41,252	38,674
Net claims outstanding at December 31	**249,147**	243,640
Net claims outstanding at January 1	**243,640**	219,042
Change in Net Provision for Claims	**$ 5,507**	$ 24,598

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BOARD OF DIRECTORS
(as of June 1, 2008)

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Secretary
JOSEPH E. M. HUGHES

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